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THE MONTANA FUTURES PROJECT

REPORT ONE: SITUATION ANALYSIS AND PUBLIC RESPONSE

SOURCE DOCUMENT

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January, 1993

Prepared by:

The National Consulting Service
of the
National Association of State Development Agencies

Managed by:

Business Development Division
Montana Department of Commerce

Under direction of:

The Governor's Council for Montana's Future

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ACKNOWLEDGEMENT

The National Association of State Development Agencies (NASDA) and the Montana Department of Commerce wish to thank the many individuals who contributed time and information for the implementation of this phase of the project. First and foremost, thanks are due to the members of the Governor's Council for Montana's Future.

The Governor's Council for Montana's Future is composed of the following members who serve at the pleasure of the Governor:

Mr. Jim Crane, Chairman
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The Council's work was completed in a relatively short period. It was a volunteer effort and involved committee meetings, sub-committee meetings, town meetings and the expenditure of many hours.

Appreciation is given to the local citizens, business leaders and community officials who provided information about what Montanans desire for the future. The more than seventy community based town meeting facilitators, development professionals and private-sector individuals who participated in the town meeting training sessions and focus groups are to be highly commended. Development of the Council Report would only have been possible with the assistance of hundreds of volunteers who participated in the public participation process which included an extensive interview series, a mail survey, town meetings and a statewide telephone survey.

Thanks are also due to the survey and report sub-committees of the Governor's Council for Montana's Future who provided valuable comments on the content of this report.

Business Development Division of the Montana Department of Commerce administered and provided in-state staff support to the Council. The Council is especially grateful for the extraordinary personal commitment to this effort by the following individuals within the Department of Commerce:

Alan Elliott, Director of Commerce
Robert Heffner, Administrator, Business Development Division
Jan Clack, Administrative Officer
Alene Gorecki, Administrative Assistant
Amy Townsend, Governor's Assistant Press Secretary
Chuck Brooke, Former Director of Commerce

The National Consulting Service of the National Association of State Development Agencies provided extensive professional advice, editorial support, administrative staffing and consulting services to the Council. In addition, NASDA provided publication services without which this report could not have been produced. Project team members included:

Miles Friedman - Executive Director
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Kalispell Branch of the American Association of University Women
Intermountain S.I.R. of Great Falls

The National Association of State Development Agencies was formed in 1946 to provide a forum for directors of state economic development agencies to exchange information, compare programs and establish an organizational base from which to approach the federal government concerning mutual interests. Today, NASDA is a full service trade association, providing a wide range of technical services to its membership. Participants in NASDA include more than forty state development agencies, numerous development specialists at all levels of government, and several dozen private sector interests. Through its National Consulting Service, NASDA has been innovative in responding to member needs, including professional on-site consulting for strategic planning, training, program assessments and other technical assistance services.

The NASDA project team wishes to thank Economic Development Administration and the Montana Department of Commerce for the financial support for this project with special appreciation to Robert Heffner of the Montana Department of Commerce who served as project officer and liaison.

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The Montana Futures Project is charged with preparing a publicly-supported vision and agenda for the state's economic future, including goals for the stewardship and development of Montana's human, natural and industrial resources, and statistical benchmarks for measuring progress toward those goals. This vision and agenda are to be based upon the values and priorities of Montana's citizens, and informed by an understanding of the state's economic condition.

THE MONTANA FUTURES PROJECT

REPORT ONE:
SITUATION ANALYSIS AND PUBLIC RESPONSE

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REPORT ONE: SITUATION ANALYSIS AND PUBLIC RESPONSE

I. GENERAL INTRODUCTION: OVERVIEW OF THE MONTANA FUTURES PROJECT

A. The Approach: What's Being Done and Why

-a Preface by the Council Chairman-

In 1970, in the course of producing the Montana Economic Study, the principal researchers for that project gave us a formula for working in a rational and coordinated way toward economic growth and job creation--a formula which has yet to be applied.

The authors wrote: "What we think is needed is an orderly continuous process which will allow Montanans to consider the facts, express their preferences, and permit priorities to be established and changed in light of current economic realities and citizen preferences." [1]

Economic development plans have been done since then, of course. But the process has not been orderly, or continuous. And it has not always been based on citizen preferences.

- Often, plans have been created by experts, and presented to the citizens only after they were done.
- However they were created, strategies have not always been implemented. We have planned what to do, but we have not always done what we have planned.
- And we have never been able to measure the results of our efforts by any agreed-upon standard. Even when we carried out our recommended programs and policies, it has been difficult to say how well or badly they worked, because the expected results--and ways to measure the results--were not built in at the start.

Twenty-two years later, in 1992, the Governor's Council for Montana's Future has taken on the task of changing all that.

• **Public Participation.** As the first and most fundamental step, the Council began by asking individual Montana citizens to declare what they want. Montanans were asked to consider the economic facts, express their preferences and identify priorities. We spoke to a total of 873 citizens at a series of 29 town meetings all across the state in May and June. Next, we conducted a statewide random telephone survey to delve into the issues that emerged as most important in the town meetings.

A vision of Montana's future, and goals for realizing that vision, will be composed from what was learned in the meetings and surveys. Is this "bottom-up" planning? We would rather think of it as a "top-down" process, with the top being the people of Montana.

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[1] University of Montana, School of Business Administration, Bureau of Business and Economic Research, 1970 Montana Economic Study, pt.1, v.1, ch.1, p.1.90.

•**Benchmarks for Progress.** Report Two of the Futures Project will sharpen the focus, and introduce the element of accountability, by defining statistical benchmarks to measure the results Montana is looking for, and to mark progress along the way.

Do we want to increase incomes? How much, how broadly, and by when? Do we want to "diversify, strengthen and stabilize" our economy? What indicators will tell us that the economy is more diverse, strong and stable--or less? What exactly do we mean by those words--and how do we know if we're moving closer to the goal, or falling further away?

By setting benchmarks in advance, we can hold our institutions accountable--and prevent gamesmanship by factions who choose the numbers that bolster their own positions.

•**Continuity and Citizen Oversight.** Also in Report Two, the Council will make recommendations designed to see that an "orderly process" for giving Montanans a voice and a rational means for choosing their future is in fact instituted. The Council will consider recommendations on topics including the following:

- adoption of preliminary economic development benchmarks-- statistical measures of success--by the Montana legislature;

- assigning responsibility and resources to create a more extensive permanent set of benchmarks for the development and stewardship of Montana's human, natural and industrial resources;

- incorporating information on goals and benchmarks into the state's budgeting process;

- improving communication and coordination among the state's diverse planning efforts [listed in Section II.A., below];

- providing for continued citizen-led oversight, reporting, review and redirection of economic development activity;

- continuing a careful separation between goal-setting and benchmarking, on the one hand, and implementation strategies and tactics on the other. **Visions should not be confused in the course of disputes on how to realize them; and goals should not be lost when programs miss their aim.**

A main goal of the project is to work out a process of strategic planning that can bridge changes in administrations and legislatures.

To accomplish that goal, a key element of the Council's approach is to clearly separate the steps for defining and measuring goals from the steps for achieving them. Our work has already shown us that Montanans share a surprising degree of consensus in our vision of the future--where we want to go. But the exact actions and programs--what we do to get there--will necessarily be matters of dispute, to be resolved in particular ways by particular administrations.

In order to keep the public's vision and goals separate from debates over tactics and programs, this Council's mandate ends with the statement of vision, goals, benchmarks and recommendations for continuity and oversight, in Report Two.

The Montana Department of Commerce and its consultants for the project, the National Association of State Development Agencies, will present an action plan in Report Three, including suggested strategies and programs for reaching the public's goals and vision.

Report Three will be presented as a menu from which an incoming administration and legislature can select options for moving in the directions defined in the public input and participation stage of the Futures Project. It is explicitly recognized that not all the suggestions in Report Three will be acceptable to both the Legislative and the Executive; it is expected that some will be acted upon and others not.

Enactment of a comprehensive legislative program is not this Project's objective, or its criterion for success.

Instead, if the public's goals can be firmly established; if ongoing public participation in goal-setting is instituted, along with public oversight, reporting and redirection of development activity; if benchmarking for accountability is adopted; and if a combination of actions are started toward the goals--then we will be able to say that the "orderly, continuous process" called for so long ago has been set in motion.

The Montana Futures Project is successful, if the means are put in place for Montana's future to become Montana's choice.

-Jim Crane, Chairman
Governor's Council for Montana's Future

••••••••

B. The Council and Staff: Who's Doing It

In February of 1992, Governor Stan Stephens nominated a non-partisan panel of 22 Montanans, from many walks of life and all geographic regions of the state, to serve as the Governor's Council for Montana's Future. A list of members appears after the title page.

Instead of asking interest groups to appoint representatives, the Governor aimed to pick people who had broad and varied experience, giving them knowledge of more than one aspect of our economy--people representative of Montana rather than a single interest.

To take an example, there is one woman on the Council who lives on a ranch; who is an insurance agent; and who is the director of a local economic development organization in a rural area. She could represent women, or agriculture, or the insurance industry, or economic development agencies, or her home county. She was not nominated by any of those five groups, or appointed to represent any of them in particular, but obviously is familiar with all five. Her breadth of experience is typical of the Council members.

The tasks involved in creating this plan--the economic research, putting together surveys and questionnaires, organizing town meetings, writing the reports--are being done by staff from the Montana Department of Commerce and by consultants under contract from the National Association of State Development Agencies (NASDA). The whole project is primarily funded by a $120,000 State 302(a) Planning Grant (#05-25-02517) to the State of Montana from the Economic Development Administration of the U.S. Department of Commerce.

****

REPORT ONE

(a) Situation Analysis — *"where we are"*

Policies and Performance. Consultant reviews the state's economic circumstances and policies, and locates them in the regional and global context.

(b) Public Visioning and Goal Setting — *"where we want to go"*

Town Meetings: staff presents the situation analysis, and asks open-ended questions on values and issues for Montana's future.

Telephone Survey: explores issues and values in depth, asking about priorities; costs and tradeoffs; performance levels; and urgency.

Publish REPORT ONE: SITUATION ANALYSIS & PUBLIC RESPONSE

REPORT TWO

(a) Vision and Goal Statement

Compilation: Governor's Council compiles town meetings, surveys and interviews into a concise vision statement, and list of goals.

(b) Benchmarks — *"how we'll know when we get there"*

Measures of Results. Council and consultants identify statistical milestones for measuring progress toward and achievement of goals and objectives.

(c) Oversight and Continuation

Recommendations for citizen-led monitoring, reporting, review and redirection of development activity and policy.

Publish REPORT TWO: VISION, GOALS & BENCHMARKS -- November, 1992

REPORT THREE (staff & consultants)

Action Plan *"what we do to get there"*

Strategies for overcoming threats and weaknesses, to realize the stated goals and vision;

Actions and Programs to implement these strategies, with recommended legislation;

Publish REPORT THREE: STRATEGIES AND ACTIONS -- December, 1992

II. SITUATION ANALYSIS AND PUBLIC RESPONSE

The purpose of this first report from the Governor's Council for Montana's Future is to provide a general background of history and fact concerning Montana's economic circumstances, performance and policies; and to report the results of the public's response to questions on vision, values, issues, goals and priorities for the state's economic development over the coming twenty years.[2]

This report locates the discussion of Montana's future in the context of the following elements:

(1) current economic development studies and initiatives;
(2) past planning efforts;
(3) an economic analysis of short-term trends and long-term structural change;
(4) a comparison of Montana programs and policies to neighbor states;
(5) an historical comparison of Montana's policies and programs--1992 versus 1982;
(6) a business needs analysis--conclusions and recommendations from a concurrent study by the Corporation for Enterprise Development;
(7) public response -- findings and recommendations from town meetings, telephone and mail surveys;
(8) a summary of economic development strengths and weaknesses.

The Council's second report will draw upon the situation analysis and public response to compose the citizens' vision of Montana's future, together with a set of broad goals for realizing that future, and a set of benchmarks for measuring performance and progress.

---

[2] Background material and documentation for the information summarized herein is published in a companion volume, the Situation Analysis and Public Response Sourcebook. The Sourcebook is available at all state depository libraries. Copies can also be viewed at the Montana Department of Commerce, 1424 9th Ave., Helena MT 59601, (406) 444-3923.

PART 1 SUMMARY REVIEW OF ONGOING STUDIES AND INITIATIVES

Three dramatically different yet useful types of studies and initiatives are currently underway in Montana. The **Statewide Strategic Studies** are designed to evaluate resources and opportunities and to recommend options for the state of Montana as a whole to achieve its short- and long-term goals. **Targeted Studies** are aimed at reviewing specific issues, specific industries, or specific agency or organizational activities to enhance Montana's business climate and facilitate new opportunities for the private sector. **New Action Programs and Initiatives** implement specific ideas or strategies by delivering specific services or resources to Montana's economy.

Ongoing studies and initiatives are briefly reviewed here to provide an understanding of the level of interest and the number of individuals and organizations currently involved in planning for Montana's future.

Statewide Strategic Studies

State of Montana Strategic Economic Development Plan

The purpose of this strategic planning effort is to provide a non-partisan, long-term strategic economic development plan to serve as a platform and framework to guide Montana's development agenda over the next two decades. The planning process seeks to establish a vision and set of publicly-defined and -endorsed goals to guide the state's growth and development using a set of well-defined statistical benchmarks to measure and chart its progress.

The most unique and critical element of this planning process is the broad-based public participation effort which seeks to avoid the usual top-down planning approach, in which the majority of issues are defined and key decisions made. Instead, Montanans are being asked for their input through participation in small focus group sessions conducted during local town meetings.

The work plan uses a two-stage approach to develop a pro-active, realistic, action oriented and easily implemented plan for the state. The first stage involves both a *Strategic Assessment* and *Public Visioning and Goal Setting Process.* The National Association of State Development Agencies conducted the *Strategic Assessment* to understand Montana's current situation and review Montana's economic position, its strengths, weaknesses, opportunities, and threats. The *Public Visioning and Goal Setting Process* is designed to recognize the public's goals and visions for stewardship of the environment, development of human resources, and industrial and income growth by taking account of not only the public's priorities but also the costs and tradeoffs the public is willing to bear.

The second project stage develops *Statistical Benchmarks and Implementation Actions* to realize the business development goals identified in stage one. The *Development of Statistical Benchmarks* seeks to specify the exact quantitative measures of current status, intermediate milestones, and final accomplishment of the public's goals and vision over the

next twenty years. *Implementation Actions* will involve the development of concise strategy recommendations, tactics (programs, regulations, legislation) and roles, responsibilities, and timeliness to insure that the public's vision and goals are accomplished.

The first and second stages of the planning process are being guided by a non-partisan, twenty-one-member Governor's Council for Montana's Future.[3] The Montana Department of Commerce is providing manpower support, and the National Association of State Development Agencies is acting on a consulting basis to direct and implement the entire planning project. This initiative is supported by a grant from the U.S. Economic Development Administration (EDA) in Washington D.C.

Targeted Studies

Business Needs Analysis, Great Falls Area

The Corporation for Enterprise Development, a North Carolina-based economic development consulting firm, is surveying 600 of Montana's small businesses located within the thirteen-county area around Great Falls. This survey pinpoints the resource-delivery needs of small businesses and assesses the matchup between services needed and services actually available, as well as assessing the quality of existing services (public and private); and will make recommendations for new and improved business services in the area. The thirteen counties extend from Malta to Cut Bank and south to White Sulphur Springs. The telephone interviews are intended to pinpoint development issues, diagnose economic ailments, and prescribe specific solutions, including business development programs, financing alternatives, and technical assistance initiatives.

The study is being financed by the Northwest Area Foundation, a Minnesota-based group interested in economic development issues. The Great Falls region is one of three regions being studied as a part of the research effort. The Pocatello, Idaho area and the region around Fort Dodge, Iowa are also being reviewed.

Membership Survey and Strategic Plan

The Montana Ambassadors are completing their 1992 Membership Survey and are engaged in creating a strategic plan for their organization's efforts in economic development. The purpose of the survey is to identify the Ambassadors' opinions and assessments of Montana's business climate, their preferences and priorities about legislative issues for the 1993 session, and their priorities for the issues, programs, and activities to be undertaken by the Montana Ambassadors during the next year.

The Montana Ambassadors is a privately funded, non-partisan organization of approximately 180 business executives who have joined hands with the state of Montana to promote

[3] The Council is chaired by Jim Crane. Alan Elliott served as the first chair (February through July, 1992.)

long-term, responsible economic growth. The group was formed in partnership with the Montana Department of Commerce in January 1984. It includes representatives of businesses with one to 3,350 employees and payrolls of $10,500 to $340 million. Most of the businesses represented are small firms.

The Ambassadors have executed and financed a number of business recruitment and retention projects, including the Business Visitation Program, the Catch & Release Fly Fishing Tour, the Wintertime Invitational "Big Sky Ski" Tour, and the Governor's Golf Classic at Eagle Bend Golf Course in Whitefish. Each year the Ambassadors select a Montanan as the outstanding entrepreneur of the year and award him or her the "Dennis R. Washington Award," named for the first entrepreneur to receive the award. In addition, the Ambassadors donate their time and expertise to study economic development issues of significance to Montana firms. The 1990 Governor's Privatization Study is one such study completed by the organization.

The Wealth of Nature: New Economic Realities in the Greater Yellowstone Region

The Montana Wilderness Society recently completed a study of the economy of the twenty-county area surrounding the Greater Yellowstone ecosystem. The findings of the study indicate that retail and service-related industries are the largest employers and sources of income in the Yellowstone ecosystem, with the emergence of these industries due largely to the region's pristine environment and quality of life. This report indicates that for the region to do well economically, it doesn't need to damage the region's ecosystem; such tradeoffs are no longer necessary.

Montana: Change and Choices

The Center for National Policy, a Washington, D.C.-based policy and research organization is drafting a final report on Montana's income and employment situation. Part of a larger study to determine the underlying components affecting regional economies, the Montana study focuses upon state- and county-wide economic data using a variety of research methods. The study is being undertaken through a grant from the Ortenberg-Claiborne Foundation. Results are anticipated to be available early this fall.

Montana Tourism Development Plan

The Travel Montana Division of the Montana Department of Commerce is involved in a strategic planning effort to understand the attitudes of Montana's citizens toward the tourism industry in order to establish a collective vision for tourism over the next five-year period. The study is being conducted by Ernst and Young, with policy and administrative oversight being provided by the Department of Commerce and the Tourism Advisory Council.

The study will utilize an in-depth survey process involving questionnaires, personal interviews, and telephone surveys. Summary briefs are being requested from organizations, associations, and groups related to Montana's tourism industry to ascertain their positions about key issues affecting tourism policies and programs. Federal and state agency personnel will also participate through workshops and focus group interaction. Alan Elliott chairs the Tourism Advisory Council and has worked closely with Sandra Guedes, former Chief Administrator of the Montana Promotion Division, and Matthew Cohen, now Chief Administrator, in the development of the strategy. It is anticipated that the planning process will be completed by early November.

Montana Science and Technology Plan

The Montana Science and Technology Plan, completed in December of 1991, established a framework to encourage the state's public and private science and technology resources to add value to Montana's natural resources and expand the state's economy. The implementation phase of the project is now under way, using a focus group process in which 175 Montanans will design specific action plans for implementation.

The focus groups will analyze the eight areas of Montana's basic industries and resources to develop ways that science and technology can provide added benefits and lead to value-added production. The eight areas of focus are: agriculture (animals); agriculture (plants); agriculture (basic research); biotechnology; communications and manufacturing processing and technology; energy; forestry; and wood products, mineral extraction, and processing. In addition to the focus groups, a public-awareness steering committee is developing media and public speaking programs to increase the public's awareness of the role science and technology can play in expanding Montana's economy.

Montana Water Plan

The Montana Department of Natural Resources and Conservation, Water Resources Division annually undertakes policy planning focused upon specific issues. Each year the division tackles two to three policy issues of concern to the state. This year the division is working to develop recommendations on the integration of water quality standards with water use rights and requirements for water allocation. The planning process is ongoing and dynamic, reflecting the primary issues affecting Montanans in a particular year. The division is also developing a water reservation process to reserve water rights for local soil and conservation districts, cities and to meet water quality dilution requirements. Curt Martin supervises this effort for the Department.

Transportation Strategic Plan

The Montana Department of Transportation is completing Phase One of its strategic plan which involves the definition of the Department's mission and goals. The process is being conducted through a departmental steering committee and a fifty-member user-group advisory committee which provide policy direction. The initial process involved a situational

analysis, public participation through a random sample mail survey to 3,000 households, 2,500 targeted constituent user groups, and 1,900 departmental employees. Seven goals and seven initiatives have been recommended which are aligned in the following four areas: Roles and Priorities; Public Relations and Customer Input; Departmental Resources; and Internal Departmental Strengths and Weaknesses. A draft report is anticipated by late September detailing the mission and goals. Phase Two involves implementation: the development of objectives, benchmarks, strategies and tactics--how to accomplish and support the defined mission and goals. Implementation is anticipated to begin in mid-November, with adjustments being made during October to December to the departmental budget to accommodate the goals.

Comprehensive Management System

The Montana Department of Fish, Wildlife and Parks is involved in an ongoing process to establish a Comprehensive Management System that includes establishing a vision statement, goals, objectives and strategies for a mission driven budget. The process will accomplish four results. A background document entitled *Creating a Vision for the Future - Five Year Directions for the Department of Fish, Wildlife and Parks* will be developed. The Department will establish goals, objectives and strategies for a mission driven budget. A schedule regarding biennial work requests, equipment requests, proposed legislation, program suggestions and capital projects will be instituted. Finally, specific workplans, including the uses and rationales for projects will be prioritized.

New Action Programs and Initiatives

State Rural Development Council

In response to a presidential initiative of the Bush Administration, Montana will establish a State Rural Development Council (SRDC). The Council, consisting of representatives of federal, state, local, and private development agencies, will serve as a mechanism for coordination and communication among the multiple development programs that already exist--serving to eliminate conflicts and duplications, and to assure efficient and coordinated action, among existing agencies. SRDC projects in other states have included creating a single application form for all federal business loans and guarantees, and eliminating contradicting definitions of concepts such as "rural" and "small business" among different federal programs. The Montana SRDC, funded 75 percent federal and 25 percent state and local, is expected to be operating by the fall of 1992.

Montana Competitiveness Initiative

This private-sector initiative is designed to help solve the problems and inefficiencies of small scale in Montana manufacturing and other trade-sector industries. This specific implementation tactic or action-oriented program seeks to provide financial incentives and technical assistance to bring Montana manufacturers together in industrial networks. Working together, companies joining in networks may be able to overcome some specific problems associated with small size (such as insufficient financial, personnel, or

manufacturing capacity) that frequently prevent Montana firms from penetrating large external markets.

The first steps undertaken by the initiative involved developing market contacts and cataloging technical information to enable industrial networks to flourish in Montana.

This effort is being managed and coordinated through the Montana Community Foundation. Jim Scott and Steve Browning are providing leadership and organizational direction for the statewide networking effort.

Economic Development Through Education Resources (ED/ER)

This initiative, supported by IBM and the Montana Chamber of Commerce, pursues a general strategy of achieving economic development results by improving both the educational system and the likelihood that students will progress further in that system. The project brings together a broad base of public and private institutions to create a constituency and formulate specific tactics and action plans to support education resources. This initiative can benefit from the Statewide Strategic Economic Development Plan's visioning and goal-setting process and may offer an opportunity to implement actions to accomplish the human-resource development goals resulting from that statewide strategy.

PART 2 SUMMARY REVIEW OF PAST PLANNING EFFORTS[4]

During the past twenty-two years, there have been ten separate reviews and studies of Montana's economic position by various public agencies and private-sector consultants.

In 1970, the Bureau of Business and Economic Research of the University of Montana completed the *Montana Economic Study*. Samuel Chase, Jr. and the other authors of the study concluded that Montana was unlikely to regain its relatively prosperous economic position and was likely to fall even further behind. The authors cautioned, "We do not believe that a permanent order of priorities--a grand design--can or should be established with respect to state actions to remedy the situation." Instead a continuous, orderly process allowing Montanans to consider facts and express their preferences in light of changing economic realities was recommended. The report avoided making specific recommendations on how to address the challenge of low economic growth, but called for tax reform, governmental reorganization, and consolidation.

In August of 1976, Governor Thomas Judge presented the *Montana Governor's Policy Initiatives* as the representative areas upon which he anticipated the executive branch would focus its primary attention during the 1977-79 policy cycle. Specific policy and programmatic initiatives covered General Government, Community Affairs, The Economy and the Environment, Education, Human Services, Public Safety and Protection, and Transportation. The ultimate goal of the plan was to *create job opportunities at a rate sufficient to provide employment for all Montanans by identifying areas suitable for increased economic growth and activity*, taking into consideration the existing economic base, availability of materials and energy, labor market factors, transportation, existing market demand, and pollution-control requirements.

The *Montana Economic Development Project*, co-sponsored by the state government and the Montana International Trade Commission, began working to identify and analyze new economic development opportunities for Montana in the spring of 1982. By January of 1983, a strategic plan for economic growth was produced with the help of McKinsey and Co. The plan, while never put into final form and published, was used as a framework in 1987 by the Governor's Council on Economic Development in the development of "The Next Century: Strategies for Advancing Montana's Economy." The final summary draft of the 1983 McKinsey and Co. report contained detailed reviews of Montana's economic performance, an assessment of Montana's economic development assets and liabilities, and twenty-two specific recommendations to promote growth, including the Ambassadors business recruitment effort, more support for tourism promotion, increased investments in infrastructure, the formation of a science and technology committee, and a comprehensive tax study.

During the period between 1983 and 1988, several of the recommendations of the 1983 work were acted upon, with many more initiatives directed to sector-specific task forces or industries for further study. Published works during this period included the proceedings

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[4] Information compiled from an unpublished essay by Stanley A. Nicholson, "The Montana Economic Study," used with permission, (November 1991).

of a July 1986 *Conference on Montana's Economic Future* featuring Dr. David Birch; papers presented to a *Conference on Taxation and the Montana Economy* in September of 1986; and the *Report of the Economic Transition Task Force to the Governor* in November of 1986. On March 22, 1987, the *Great Falls Tribune* published a *Special Edition Insert* with the results of a survey of Montana leaders which recommended a list of individuals most likely to lead Montana through the economic transition. This insert also contained a series of essays by Montana leaders and academics who voiced opinions about particular government policies.

In December of 1988, the Montana Ambassadors (a private organization of business and university leaders) published *Partnership for Progress,* a report which summarized the opinions of the Ambassadors' membership on the Montana economy, analyzed the economy and its problems, and made a number of recommendations related to tax reform, education, capital availability, workers' compensation reform, and other key development issues.

Also in December of 1988, the Governor's Council on Economic Development presented *The Next Century: Strategies for Advancing Montana's Economy*. The report drew upon previous work of McKinsey and Co., David Birch, and other expert advisory groups. According to Stanley Nicholson, "The hallmark of the report was the diagnosis that Montana now has two economies, the traditional resource-based sector that is declining and the new small business sector that is advancing."[5] The report recommended five strategies as crucial to Montana's economic future:

- Investing in the Workforce
- Encouraging and Supporting Entrepreneurship and Business Innovation
- Building and Maintaining Physical Infrastructure
- Strengthening Local Government Fiscal Capacity
- Strengthening State Fiscal Capacity

Additionally, the report presented fifteen specific "tactics" to nurture economic development at the state and local levels and called for a review of the tax system.

The May 1990 *New Directions* report commissioned by the Montana State AFL-CIO and prepared by the Corporation for Enterprise Development, a private consulting firm in North Carolina, presented another agenda for organizing Montana's human and natural resources to build a "first-rate state economy." The report recommended national leadership in programs for retraining older workers and for building foreign-language and cultural education into the curricula of schools and universities. The authors also criticized the tax breaks enacted in the 1980s to spur business development as largely ineffective, and recommended that some of those be reversed to help pay for the under-funded regular government programs and for their program recommendations.[6]

In addition, a number of Montana cities, towns, tribes, and tourism regions have conducted studies particular to their own areas.

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[5] Ibid.

[6] Ibid.

PART 3 ECONOMIC ANALYSIS: SHORT-TERM TRENDS AND LONG-TERM STRUCTURAL CHANGE

An Overview of Montana's Economy[7]

The Historical Perspective

For over one hundred years, Montanans have persevered through dramatic "boom and bust" economic cycles because of the state's close alliance with resource-based industries. The 1970s (excepting the periods 1969-70 and 1974-75 which coincided with national recessions) reflected a "classic boom decade" driven by high commodity prices, significant growth in population, employment and income. Linked with the national natural resource and agricultural economic trends (slumping world energy prices, ongoing recessionary periods and the national agricultural crisis), the decade of the '80s brought an end to the "boom" times.

During the 1980s the goods-producing economic sectors (agriculture, mining, construction and manufacturing) lost jobs, and total worker earnings dropped by 25 percent. Service sector employment growth offset the job decline, however earnings in the wholesale/retail trade and railroad transportation declined, while inflation adjusted earnings increased for health and other consumer services along with various business services. Average earnings per worker and per capita personal income declined, with an increasing number of Montanans living in poverty. An inevitable result of the 1980s economic stagnation was an increase in net outmigration.

From 1979 to 1982, Montana experienced significant economic decline in all basic industries with non-farm labor income dropping by 10 percent. The cyclical decline from the nation's worst post-war recession, the Milwaukee Railroad's shutdown, closures of refineries in Anaconda and Great Falls and permanent shutdowns of major employers had substantial negative impacts on the Montana economy. The boom in oil and gas exploration helped to moderate declines in these basic industries but by-passed the coal mining sector.

Between 1983 and 1984, the U.S. experienced a return to economic recovery and a period of sustained growth. Likewise in Montana, declines ended and basic industries stabilized with wood and paper products experiencing sizable increases but oil and gas experiencing downward trends as the energy boom abated. Non-farm labor income stabilized and increased slightly in some sectors.

Overall, Montana's basic industries experienced relatively small economic declines from 1985 to 1987. Most industrial sectors remained stable with only railroads and oil and gas experiencing significant declines. Non-farm labor income experienced downturns but not as sharply as those in the early 1980s.

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[7]Information compiled from "Outlook Winter 1992: The Montana Economy within a Regional Context," February 1992, and Montana Business Quarterly Spring 1992, "The Montana Economy within a Regional Context," Volume 30, Number 1 by the Bureau of Business and Economic Research, School of Business Administration, University of Montana.

Montana's "fragile recovery" occurred between 1988 and 1990 with very slow growth. Non-fuel minerals and precious metals, mining and nonresident travel and tourism had sizable increases in labor income while selected manufacturing and the military showing modest increases. Agriculture, mining, lumber, and wood products remain large industries but are no longer the largest employers in Montana's economy. Services and retail trade have become the top two employers by major-industry group. This structural change from goods-producing to service-producing activities is forecast to continue for the Montana economy, mirroring the U.S. economy as a whole.

The number of Montanans living in the state increased about 1.25 percent per year during the 1970 to 1980 period, compared to the U.S. population average of 1.10 percent per year. However, between 1980 and 1990 the state's population rose only 0.13 percent per year compared to 0.94 percent per year for the U.S. Montana's population in 1970 was 694,409; in 1980, 786,690 and in 1990 was 799,065.

AGE CATEGORY	1990 MT	USA	1980 MT	USA	1970 MT	USA
Under 5 years	7.41%	7.38%	8.19%	7.21%	8.22%	8.44%
5 to 17 years	20.38%	18.19%	21.28%	20.95%	28.25%	25.84%
18 to 44 years	40.03%	43.22%	41.35%	40.94%	33.35%	35.30%
45 to 64 years	18.85%	18.65%	18.42%	19.64%	20.32%	20.59%
65 years and over	13.33%	12.56%	10.75%	11.28%	9.86%	9.83%

Table 1

Population, Average Annual Growth Rate

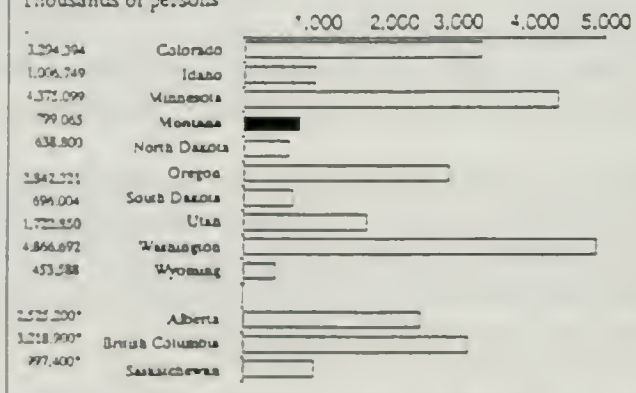
1970-1980		1980-1990	
Wyoming	3.58%		
Utah	3.29%		
Idaho	2.84%		
Colorado	2.72%		
Oregon	2.32%	Washington	1.68%
Washington	1.97%	Utah	1.62%
Montana	1.25%	Colorado	1.27%
United States	**1.10%**	**United States**	**0.94%**
Minnesota	0.69%	Oregon	0.80%
North Dakota	0.57%	Minnesota	0.72%
South Dakota	0.35%	Idaho	0.63%
		Montana	0.13%
		South Dakota	0.07%
		North Dakota	-0.28%
		Wyoming	-0.50%
Alberta	2.99%	British Columbia	1.61%
British Columbia	2.28%	Alberta	1.45%
Canada	**1.22%**	**Canada**	**1.02%**
Saskatchewan	0.19%	Saskatchewan	0.42%

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Statistics Canada.

Figure 1

Population, 1990

Thousands of persons



Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Statistics Canada.

* July 1, 1991 estimates from Canadian provinces.

• All U.S. state populations are from the 1990 Census of Population (April 1, 1990)

The Bureau of Indian Affairs identifies the status of the Indian labor force in the total Indian Service population who are members of Indian tribes or are one-fourth degree or more blood quantum descendants of a member of any Indian tribe, band, or nation, etc. The total Indian population of the United States at the 1990 census numbers 1,959,234 persons. Montana's total Native American population is 47,679, reflecting 6 percent of Montana's total population. The table on the following page identifies the labor force status of Montana's Native American population by reservation.

RESERVATION	COUNTIES	BIA TOTAL	EMPLOYED TOTAL	EARN 7K PLUS (no)	% AGE 16 - 64	NOT EMPLOYED, ABLE TO WORK TOTAL	UNABLE TO WORK STUDENT	UNABLE TO WORK OTHER
Blackfeet Indian Reservation	Glacier & Pondora	7,208	1,498	1,101	23	2,624	471	104
Crow Indian Reservation	Big Horn & Yellowstone (plus Trust Lands)	6,636	1,214	1,086	27	1,625	492	705
Fort Belknap Indian Reservation	Blaine & Phillips (plus Trust Lands)	2,407	577	346	22	621	179	205
Fort Peck Indian Reservation	Daniels, Roosevelt, Sheridan & Valley	6,699	1,445	867	21	1,605	415	694
Northern Cheyenne Indian Reservation	Big Horn & Rose Bud (plus Trust Lands)	4,458	955	420	14	955	550	478
Rocky Boy's Indian Reservation	Chouteau & Hill (plus Trust Lands)	2,848	355	280	19	692	214	249
Flathead Indian Reservation	Flathead, Lake, Missoula & Sanders	7,667	2,142	1,906	39	1,489	784	492

This table is taken from the January 1991 BIA Report, "Local Estimates of Resident Indian Population and Labor Force Estimates."
The report is intended to supply estimates related to the labor force and does not collect or provide any other combinations of data or conclusions.

The Industry Sector Perspective

"Basic" industries are those which depend largely upon out-of-state markets, exporting goods and services to other states and countries. The wages, salaries, proprietors' income and other labor income of all employed persons (labor income) from these basic industries provide new funds within the state. These new funds create additional income as they are spent and respent (multiplied) in the economy.

Montana's basic industries are agricultural services, farming, livestock operations, oil and gas extraction, coal mining, metal mining, non-metallic minerals mining, rail and other transportation, manufacturing (particularly lumber and paper products and food processing), tourism, selected services (such as certain engineering and design services), and federal government. Many of these industries are dominant within specific regions of the state, such as lumber manufacturing in northwest Montana.

National factors, local changes, and structural transitions within historically "strong" basic industries have driven recent trends in Montana's economy. For example, despite their historical and continuing importance to Montana's future, the industrial sectors of agriculture, wood and paper products, mining, and rail transportation are anticipated to display negative employment growth over the long term. For the past fifty years, employment in these industries has been declining as a percentage of total Montana employment.

The figures on the following pages indicate the level of per capital personal income and non-farm labor income experienced by Montana and its neighbors. This information is taken from the Montana Business Quarterly, Winter 1991 published by the Bureau of Economic Research of the University of Montana. The Bureau uses non-farm labor income figures to identify overall economic conditions in Montana. Non-farm labor income measures the income derived from participation in the labor force, with wages and salaries being its largest component. Non-farm labor income is the closest comparison available to measure state gross domestic product.

Table 2

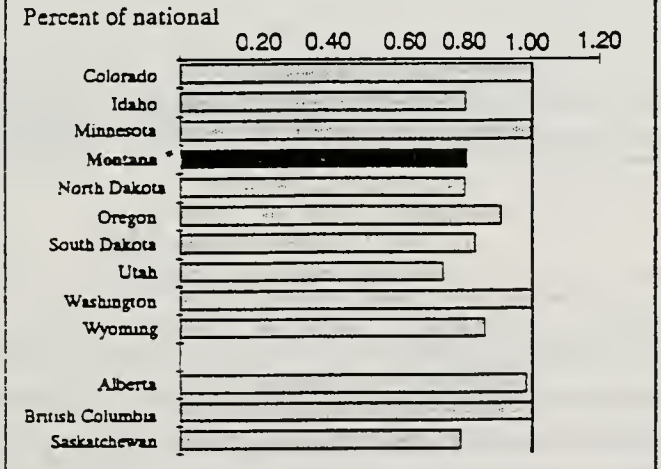
Per Capita Personal Income, Average Annual Growth Rate (Constant Dollars)

1970-1980		1980-1990	
Wyoming	3.99%		
North Dakota	3.06%		
Colorado	2.69%		
Washington	2.46%		
South Dakota	2.43%		
Oregon	2.31%		
Montana	2.28%		
Minnesota	2.23%		
Idaho	2.04%	South Dakota	2.01%
United States	**1.95%**	**United States**	**1.81%**
Utah	1.79%	Minnesota	1.69%
		Colorado	1.25%
		North Dakota	1.24%
		Idaho	1.23%
		Utah	1.11%
		Washington	1.06%
		Oregon	1.02%
		Montana	0.83%
		Wyoming	-0.90%
Saskatchewan	6.03%		
Alberta	5.47%		
Britsih Columbia	4.53%		
Canada	**4.07%**	**Canada**	**1.88%**
		Saskatchewan	1.11%
		British Columbia	0.80%
		Alberta	0.71%

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Statistics Canada.

Figure 2

Per Capita Personal Income, 1990



Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Statistics Canada.

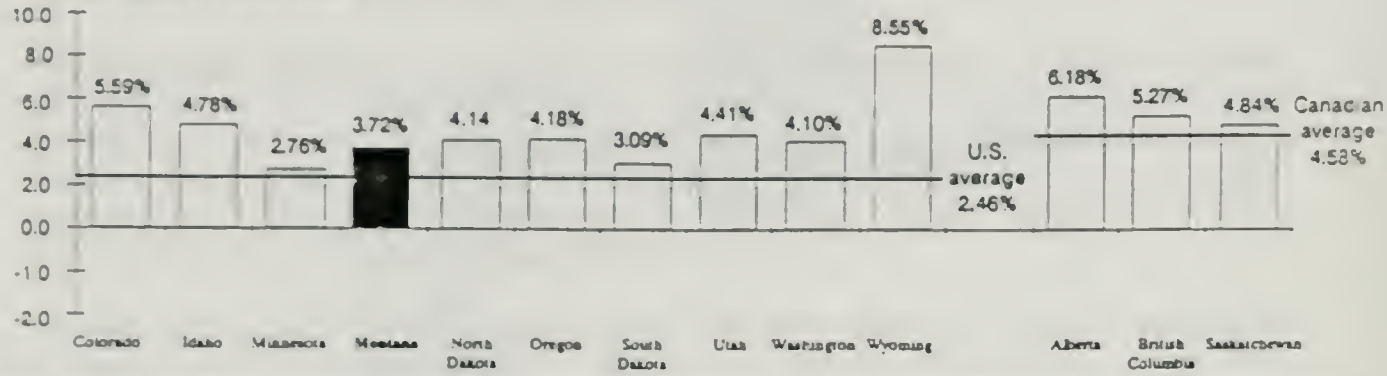
* $15,270 (82%), *Survey of Current Business*, August 1991, p.30.

Nonfarm Labor Income

Figure 3

Nonfarm Labor Income (U.S.) and Gross Domestic Product (Canada), Average Annual Growth Rate, 1970 - 1980

Annual percent change in constant dollars



Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Alberta Bureau of Statistics; British Columbia Planning and Statistics Division; and Saskatchewan Bureau of Statistics.

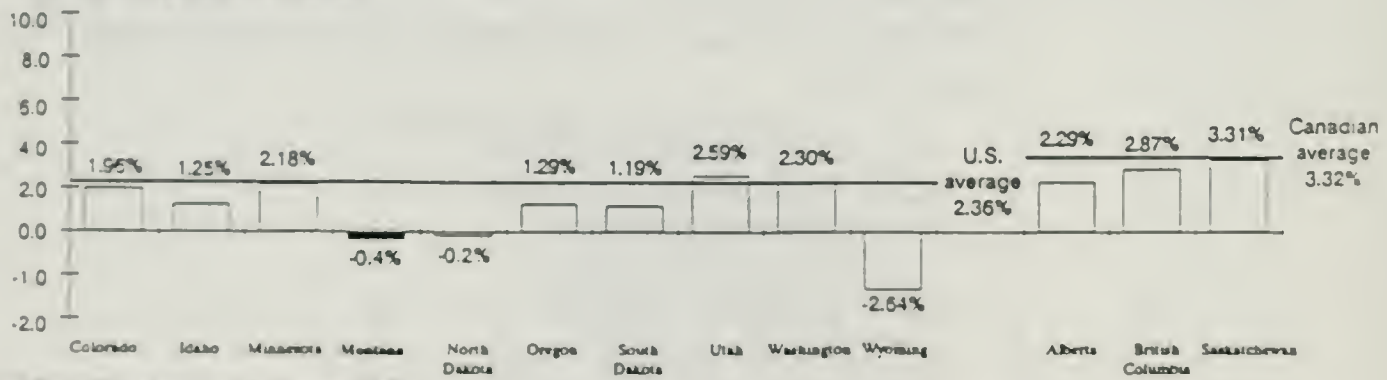
Change in nonfarm labor income is a proxy for Canada's Gross Domestic Product (GDP), which is not available for U.S. states. Both measures indicate overall economic performance.

The 1970s data for nonfarm labor income and Gross Domestic Product show relatively rapid growth. All states and provinces increased faster than their respective national average.

Figure 4

Nonfarm Labor Income (U.S.) and Gross Domestic Product (Canada)* Average Annual Growth Rate, 1980 - 1990

Annual percent change in constant dollars



* Canadian data are available only through 1989

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Alberta Bureau of Statistics; British Columbia Planning and Statistics Division; and Saskatchewan Bureau of Statistics.

Economic deceleration is obvious in the 1980s. States and provinces experienced slower growth between 1980 and 1990. In Montana, nonfarm labor income declined an average of 0.4 percent per year between 1980 and 1990. This does not mean decreases occurred each year -- as we'll see later there were slow growth years late in the decade. But it does mean that Montana's economy as measured by nonfarm labor income was smaller in 1990 than it was in 1980. North Dakota and Wyoming also experienced overall declines between 1980 and 1990.

Agriculture and Farm Products

The strength of Montana's agriculture industry sector can be assessed through the price of land, level of machinery investment, amount of farm debt incurred, and the farm debt to asset ratio. From 1960 to 1980 agricultural land values grew rapidly, peaking in the early 1980s, then sharply declining during the ten years to 1990. The average per acre value of farmland and buildings, as reported in the June 1988 and 1992 USDA's Agricultural Resources Situation and OutlooK Reports, declined from $271 in 1982 to $204 in 1986 to $164 in 1988. In 1990 reported land values began to increase moving from $238 in January of 1990 to $252 by January of 1992. Recently overall land prices have stagnated, yet certain parts of Montana, especially smaller geographic regions, have experienced substantial price increases. Rent per acre for pasture land has moved from $6.00 in 1985 to $4.20 in 1988 and $6.60 in 1992. Nonirrigated cropland rents have moved from $20.30 in 1985 and 1988 to 19.80 in 1992. Rent per acre of irrigated cropland dropped from $61.60 in 1985 to $42 in 1988 and climbed back to $50.60 in 1992. Overall since 1950, grazing land has increased in value by 120 percent, dryland crop land by 72 percent and irrigated land by 25 percent.

Montana machinery investment declined 3 percent per year between 1977 and 1986. During the past four years the level of machinery investment has been maintained since actual replacement has been equal to depreciation. Total farm debt peaked in 1983 at $4,475,200,000 however, during the remaining years through December 31, 1990, Montana's farm debt had declined by 41 percent to $2,647,100,000. Overall, Montana farmers are maintaining a 13 percent debt to asset ratio.[8]

Although volatile, Montana's agricultural cash receipts have shown no long-term upward or downward trends since 1950. Government payments have risen from less than one percent of total agricultural receipts to nearly 16 percent. Government payments peaked at 41 percent in 1986, dropping to 29 percent in 1990, relative to total crop receipts.

Cattle, wheat, and barley generate over 80 percent of total agricultural receipts. Food processing and livestock operations have generally declined during the 1980-1990 period. Anticipated increases in grain prices are expected to boost the farming and agricultural sector, but real labor income for agricultural services is anticipated to continue downward in the future. The upward movement in grain prices should more than offset softening livestock prices, resulting in a modest growth in cash receipts above the rate of inflation. Provided the inflation-adjusted interest rate remains low, upward trends in land prices may be expected.

Primary Wood and Paper Products

Logging and wood products account for 20 to 30 percent of the total labor income in Lincoln, Sanders and Mineral counties in the northwest corner of the state and Granite county south of Missoula. Labor income and employment in lumber and wood products and paper products fell regionwide in the early 1980s coinciding with the national

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[8] Economic Research Service, USDA, "Economic Indicators of the Farm Sector, State Financial Summary, 1990", Table 32, page 208.

recessions but then recovered. Montana's wood products labor income declined by more than 30 percent since the 1979 level ($379 million), dropping to $283 million in 1985 and $255 million in 1990, although the amount of logging activity increased by 17 percent. Since 1985, wood products employment has remained fairly stable at 107,000. Paper products employment peaked during 1984 and 1985 at 900 people and has experienced a 9 percent decline.[9]

From the late 1970s to 1982, industry employment fell nearly 30 percent from about 13,500 workers in 1979 to 9,700 workers in 1982. By contrast, industry employment will drop between 5 and 10 percent in 1991, relative to the late 1980s. More than 50 percent of the larger mills reduced operations or closed throughout 1982. In 1991 more than two-thirds of the mills operated at normal levels.

In contrast to the recovery experience of the 1980-82 recession, recovery from the recent recessionary period may be much different. Although markets may improve, preliminary estimates forecast declines in employment of 15 to 40 percent from pre-recession forest industry levels due to current and projected timber supply difficulties. It is particularly difficult to predict the future of Montana's forest products industry given the potential for substantially higher prices. Should the anticipated high product prices fail to materialize, timber supply issues may be compounded because mills have timber under contract that they may be financially unable to harvest.[10]

Mining and Mineral Extraction[11]

Montana possesses huge coal reserves (120 billion short tons), greater than any other U.S. state. Coal production increased from 30 million tons in 1980 to 38 million tons in each of the past three years. From 1979 to 1990, Montana's coal mining employment declined 17 percent despite a 26 percent increase in state coal production as a result of labor-saving technologies. Total employment ranged from 1,374 in 1979 to 1,448 in 1985, falling to 1,139 in 1990. Coal production is expected to increase slowly, but downward trends for both real labor income and employment are projected for coal mining.

Among the ten states involved in oil and gas production, Montana is currently ranked fifth in crude oil reserves and fourth in natural gas reserves. Montana employment in oil and gas exploration exceeded 7,000 workers during the "boom" in 1981 but now has 2,100 workers. Downward trends are forecast for oil and gas extraction activities.

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[9] Larry D. Swanson, "Regional Resource Industry Dependency," Montana Business Quarterly, Spring 1992, page 21.

[10] Charles E. Keegan III, "The Forest Products Industry in the Pacific Northwest Region," Montana Business Quarterly, Spring 1992.

[11] Larry D. Swanson, "Regional Resource Industry Dependency," Montana Business Quarterly, Spring 1992, page 21; see also BEA SA-5 and SA-25, 1985-1990.

The Non-fuel Minerals Industry includes metal mining, mining of non-fuel, nonmetal minerals and primary metals refining and processing. Mining activity experienced considerable declines during the 1980s. Since 1985, Montana's metal mining employment has more than doubled going from 1,214 to 2,713 in 1990. Labor income has almost tripled moving from $30,928,000 in 1985 to $106,240,000. In 1990 the state's metal mining labor income was ranked fifth compared to the other ten states in the region. However, labor income in Montana's nonmetal mining sector has fallen by 20 percent since 1985, from $29,937,000 to $28,960,000 in 1990. Nonmetal mining employed 1,278 people in 1985 compared to 1,083 in 1990. The state ranks seventh in its region for the nonmetal mining sector. Metals refining and processing now ranks sixth out of the ten states.

Total mining real labor income is expected to increase from 1991 to 1994 because of anticipated increases in metal and nonmetallic minerals mining. Despite the upward trends in these mining sectors, it is expected that total real labor income in all mining sectors will remain below 1990 levels through 1994. Total mining employment is expected to decline but remains relatively constant from 1991 to 1994. The downward trends in mining and related activities reflect the broad-based national trends in natural-resource industries.

Manufacturing[12]

Montana's manufacturing sector is comprised of both durable and non-durable sub-sectors. Leading nondurable producers by earnings during 1990 included food and kindred products ($61,300,000), printing and publishing ($50,887,000), petroleum and coal products ($40,793,000) and paper and allied products ($35,502,000). The largest durable goods producers by earnings during 1990 included lumber and wood products ($250,797,000), primary metals industries ($59,372,000), stone, clay and glass products ($29,028,000), and machinery and computer equipment ($19,959,000).

Wood and paper products and metal processing dominate Montana's western region, with food products and oil refining being the industry leaders in the southeast and northeast regions. Sustained growth in real manufacturing earnings occurred statewide until 1979, with sharp declines experienced between 1980 and 1984 due to the 1981-82 recession, the closing of the Anaconda Smelters and technological changes to wood processing. Since 1984, manufacturing jobs have remained relatively stable with total and full-time employment ranging from 24,893 in 1984 to 23,918 in 1988, increasing to 25,051 in 1990.

As a result of the structural changes, employment opportunities will continue to diminish in the commodity-production portions of the manufacturing sectors. Contrary to most goods-producing industries in Montana's economy, which have displayed downward trends, non-wood-related manufacturing is expected to continue an upward trend in real labor income.

Although Missoula's wood products sector earnings are forecast to decline during the 1988 to 1994 period, it is anticipated that these declines will be offset by increased earnings in other manufacturing sectors. Cascade County is forecast to experience further declines in manufacturing while Yellowstone County earnings are anticipated to stagnate. After 1991, it is anticipated that Flathead County will have slow growth, with gains in industries other than wood products. Manufacturing labor income in non-urban areas is expected to remain flat through the 1990s.

Service Sectors

As noted above, traditional goods-producing and related activities are generally being outpaced by service-producing activities such as retail trade, wholesale trade, financial services, general services (including health care, basic-oriented services, business-oriented services, and population-oriented services), tourism and transportation, utilities, and communication. This parallels the national trend toward more service-producing economic activity.

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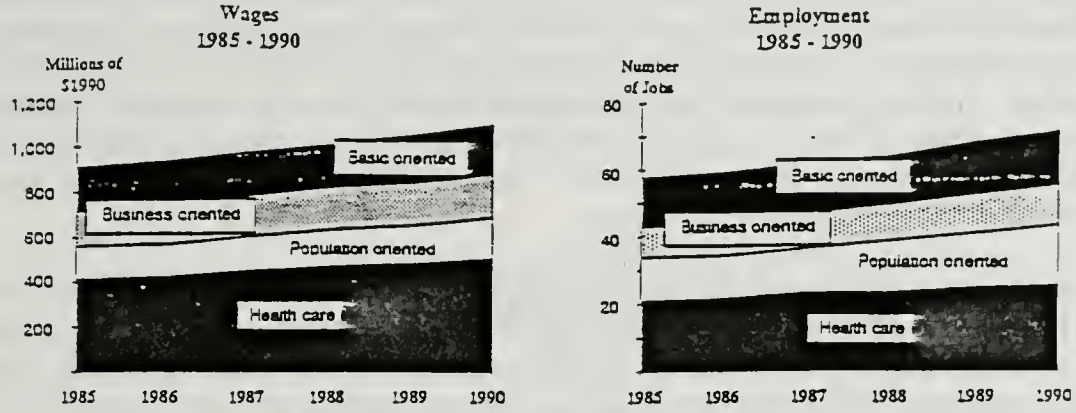
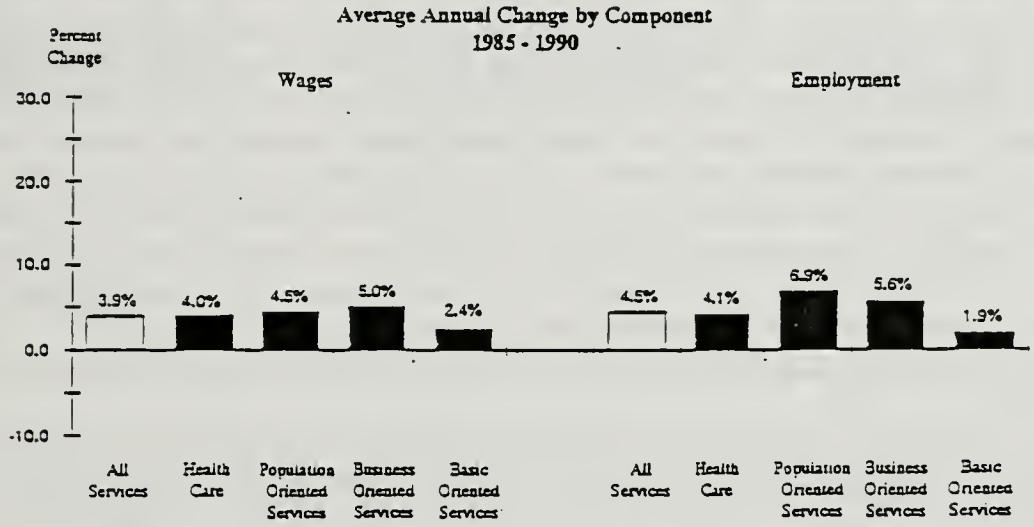
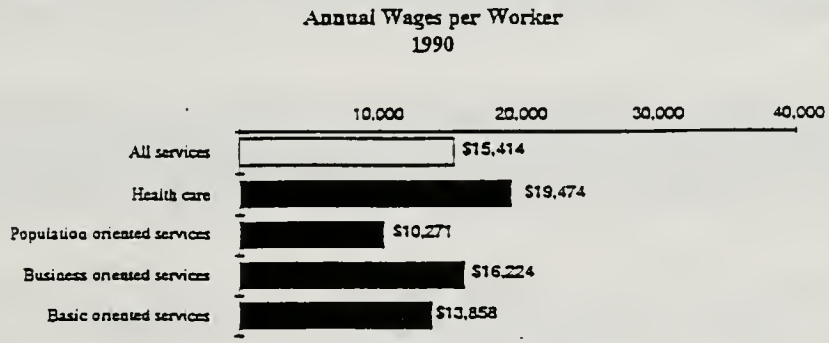
[12] Jim Sylvester, "Economics Montana:Regional Models and Forecasts," Montana Business Quarterly, Summer 1991, page 15; see also, BEA SA5 and SA25, 1985-90.

The graphs below illustrate the historical changes in Montana's general service sector in relationship to wages earned and levels of employment for each sub-sector, average annual percent change in each sub-sector, and annual wages earned per worker in 1990.[13]







Sources: Montana Department of Labor and Industry, Research and Analysis Bureau; and The University of Montana, Bureau of Business and Economic Research.

[13] James T. Sylvester, Paul Polzin and Bob Rafferty, "Montana's Service Sector, A Detailed Analysis," Montana Department of Labor and Industry, Research and Analysis Bureau and the University of Montana, Bureau of Business and Economic Research, March 6, 1992.

Health Care[14]

Montana has nineteen types of health care providers that are categorized as licensed facilities, licensed and/or certified facilities and certified facilities. **Licensed facilities** refer to licensed adult day care centers, chemical dependency treatment centers, community mental health centers, home infusion therapy service, infirmaries, personal care homes, residential treatment facilities and specialty mental health facilities. **Licensed and/or Certified facilities** include the following licensed and/or certified institutions: home health agencies, hospices, hospitals, long-term care facilities, medical assistance facilities and a variety of different types of outpatient facilities. **Certified facilities** include certified ESRD facilities, federally qualified health centers, hospital laboratories, independent laboratories and mammography facilities.

Montana's hospitals can most easily described in terms of the number of beds maintained. Five hospitals have 198 or more beds: St. Vincent Hospital and Health Center (282 beds) and Deaconess Medical Center of Billings, Inc. (272 beds), both located in Billings; St. Patrick Hospital Corporation (213 beds), located in Missoula; and Columbus Hospital Corporation (198 beds), and Montana Deaconess Medical Center (288 beds), both located in Great Falls. Hospitals ranging in size from 80 to 190 beds include: Community Medical Center, Inc. (123 beds) in Missoula; St. James Community Hospital (120 beds) in Butte; Kalispell Regional Hospital (102 beds); Bozeman Deaconess Hospital (86 beds); St. Peter's Community Hospital (99 beds) in Helena; Holy Rosary Hospital (99 beds) in Miles City; Northern Montana Hospital (98 beds) in Havre; and Flathead Regional Medical Center. Anaconda, Conrad, Columbus, Deer Lodge, Dillon, Glasgow, Glendive Hamilton, Lewistown Libby, Livingston, Polson, Sidney, Whitefish and Wolf Point maintain hospitals ranging in size from 25 to 80 beds. Many of the hospitals in Montana have formal relationships with each other and have developed business relationships with major medical equipment suppliers and pharmaceutical companies that facilitate biotechnical or medical research development.

Overall, Montana's health care activity has grown since 1970. The service industry continued its long-term growth pattern through 1990 with employment increasing nearly 3 percent over 1989. Each industry segment experienced gains with practitioners' office employment rising about 4 percent, hospitals less than 3 percent and nursing homes just over 2 percent.

Growth has been most rapid in the western part of the state, with forecasts to 1994 anticipating total health care earnings to equal the southeast's earnings. The non-urban northeast region is anticipated to experience declines in health care earnings to 1994.

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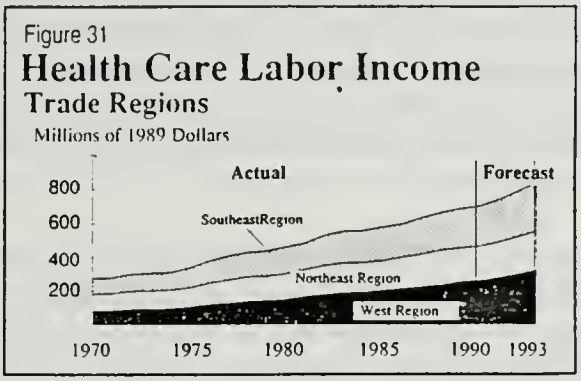
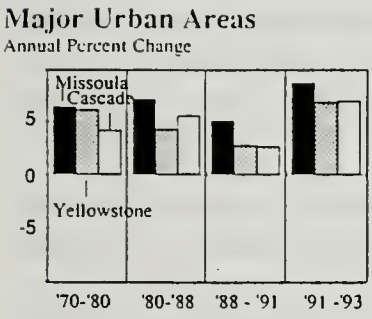
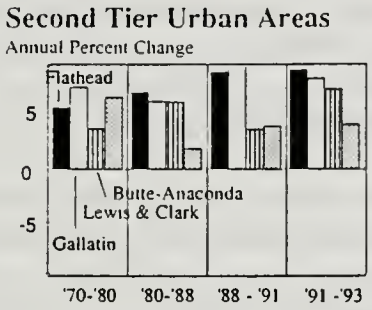
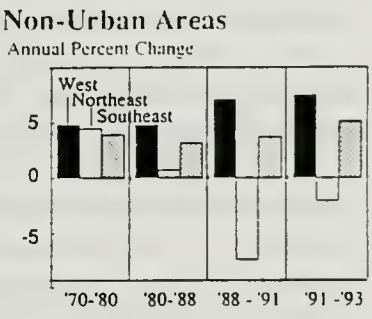
[14] Rudyard Goode, "Health Care," Montana Business Quarterly, Spring 1992.

Nationwide, the health industry grew almost 4 percent between 1989 and 1990. U.S. spending for services continues to grow at rates well above inflation. Total expenditures were $670 billion or $2,600 per person. Government programs account for about 40 percent of U.S. health payments, with private insurers paying 33 percent and individuals assuming the remaining 25 percent.









Travel and Tourism[15]

Montana's travel and tourism industry escaped the triple threat of recession, war and the threat of terrorism that plagued the national travel and tourism industry during 1991. Visits were up with nonresident skier visits up, nonresident highway visitors increasing by 2 percent and increases in air travel of 4 percent. Visits to Montana's national parks reached new records with nearly 3 million visits to Yellowstone and more than 2 million visits to Glacier.

The state accommodation tax revenue increased 10 percent or more on a year-to-year basis for each of the first three quarters of 1991. Preliminary results indicate that total nonresident spending in Montana during 1991 reached about $815 million, up 7 percent over 1990.

Despite the current strength of the Montana market, projections anticipate continued softness for the national tourism and recreation industry with marginal growth in 1992. Montana's 1992 performance will be dependent upon the economic strength of regional and Canadian markets, consumer optimism and effectiveness of statewide promotional efforts.

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[15] Steve McCool, "Travel and Tourism," Montana Business Quarterly, Spring 1992.

Finance, Insurance and Real Estate (FIRE)[16]

Montana offers a variety of funding sources to its citizens. Montana has 109 state banks, fifty-nine national banks, three chartered trust companies, 108 credit unions and eleven savings and loan associations providing a total financial resource base of approximately $7.08 billion. In addition, public sector agencies and public-private partnerships, such as the Montana Science and Technology Alliance, the Montana Board of Investments and qualified Montana Capital Companies, as well as local and regional funds, provide pooled sources of risk capital for entrepreneurial ventures. These, combined with targeted business tax incentives and tax exemptions exist to promote capital access to Montana's citizens.

In the area of agricultural finance, the Farm Credit system's lenders market share expanded dunng the 1960s, maintained 30 percent of the market during the '70s and early '80s and declined sharply during the late 1980s. The Farmers Home Administration's market share rose rapidly tripling its share of Montana's farm debt from 1976 through 1986. During the 1980s the level of farm debt financed by individuals declined sharply with banks' market share markedly increasing during the same period, thereby offsetting individuals and others declining market share. Life insurance companies and the Commodity Credit Corporation are smaller but significant agricultural lenders.

During the 1970s all substate areas experienced growth in the FIRE sector except Butte-Anaconda. Butte-Anaconda experienced small growth during the 1980s with all other regions showing poorer activity than those of the '70s. Montana's non-urban FIRE activity decreased with urban centers growing very little, if any. Overall, the western region grew fastest with the northeast region experiencing slight declines.

Forecasts through 1993 for this sector are erratic with expectations for slight growth in the major urban areas. Flathead County and Butte-Anaconda are expected to decline sharply with other urban areas experiencing slight growth. Slow growth is also expected for non-urban areas. Overall the FIRE earnings forecasts suggest an annual labor income growth rate of about 3 percent, from a projected $352 million in 1992 to $362 million in 1993 and $372 million in 1984[17].

However, Montana's financial resource capacity (as judged by the Corporation for Enterprise Development in the April 1992 Development Report Card) in comparison to the other fifty states was found to be in need of improvement. Commercial bank deposits was 37th, loans to deposit ratios in Montana institutions was ranked 39th, loans to equity ratio was ranked 39th, commercial and industrial loans made was 32nd, commercial and industrial loans to total loans ratio 17th, venture capital investments was 27th and SBIC financing was 44th. However, these measures are all up over the rankings of last year, with the exception of commercial and industrial loans to total loans which dropped from 12th. The

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[16] Jim Sylvester, "Economics Montana: Regional Models and Forecasts," Montana Business Quarterly, Summer 1991, page 13.

[17] U.S. DOC, Bureau of Economic Analysis; and University of Montana, Bureau of Business and Economic Research, "Economics Montana", Summer 1991 and 1992, Table 3.

Appendix contains graphical representations of CfED's analysis of Montana's current banking climate.[18]

Transportation, Communications and Public Utilities (TCU)[19]

The industrial sector of Transportation, Communications and Public Utilities experienced peak activities in 1979 but declined during the 1980s. For example, in 1979 full-time and part-time employment in these sectors totaled 26,358. In the following year, the figures had dropped to 26,194 and by 1983 total employment in transportation and public utilities had fallen to 24,426. During 1980 and 1986, the average number of individuals employed in transportation and public utilities was 25,584. (Information obtained from the Bureau of Economic analysis.)

Montana's major urban areas and non-urban areas all experienced declines. Flathead and Lewis and Clark counties did not grow, while Gallatin County and Butte-Anaconda experienced growth of over 5 percent per year. Growth occurred in Gallatin County because of an increase in transportation services with Butte-Anaconda's growth resulting from Montana Power Company's corporate consolidation in Butte.

Labor income in transportation will decline, although labor income for transportation services should increase. The railroad industry, which is directly tied to Montana's natural-resource industries, is expected to continue downward trends in both real labor income and employment. Public utilities are expected to remain stable.

TCU sector forecasts for the period 1988 to 1994 anticipate higher growth in the western region of Montana. Missoula will experience a slight decline through 1991, with anticipated increases in earnings to 1994. Flathead County and the non-urban West region is anticipated to experience slow growth to 1994, with Butte-Anaconda expecting declines for the same period. Overall, the Southeast region is forecast to decline in TCU activity to 1994, with Gallatin County reversing the regional trend with an expected growth of 3 percent per year. Northeast Montana TCU activity declined during 1988 and 1991 with an anticipated stabilization at no growth anticipated for 1993.

Education

In addition to its five Native American Community Colleges which have estimated student enrollment of 1,950, twelve universities, private colleges and community colleges which average a total annual enrollment of 33,259 students. The locations of the colleges and universities is identified on the map on the following page. Montana operates four Centers of Excellence research and development programs and an associated program. The Centers of Excellence and the associated program include the following:

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[18] The Corporation for Enterprise Development, "The 1992 Development Report Card," April 1992.

[19] Jim Sylvester, "Economics Montana: Regional Models and Forecasts," Montana Business Quarterly, Summer 1991, Volume 29, No.2, page 17.

- Biotechnology Center of Excellence, a cooperative effort between the University of Montana and Montana State University, is located in Missoula.

- The Advanced Minerals and Hazardous Waste Processing Center of Excellence is housed at the Montana College of Mineral Science and Technology in Butte in cooperation with the University of Montana and Montana State University.

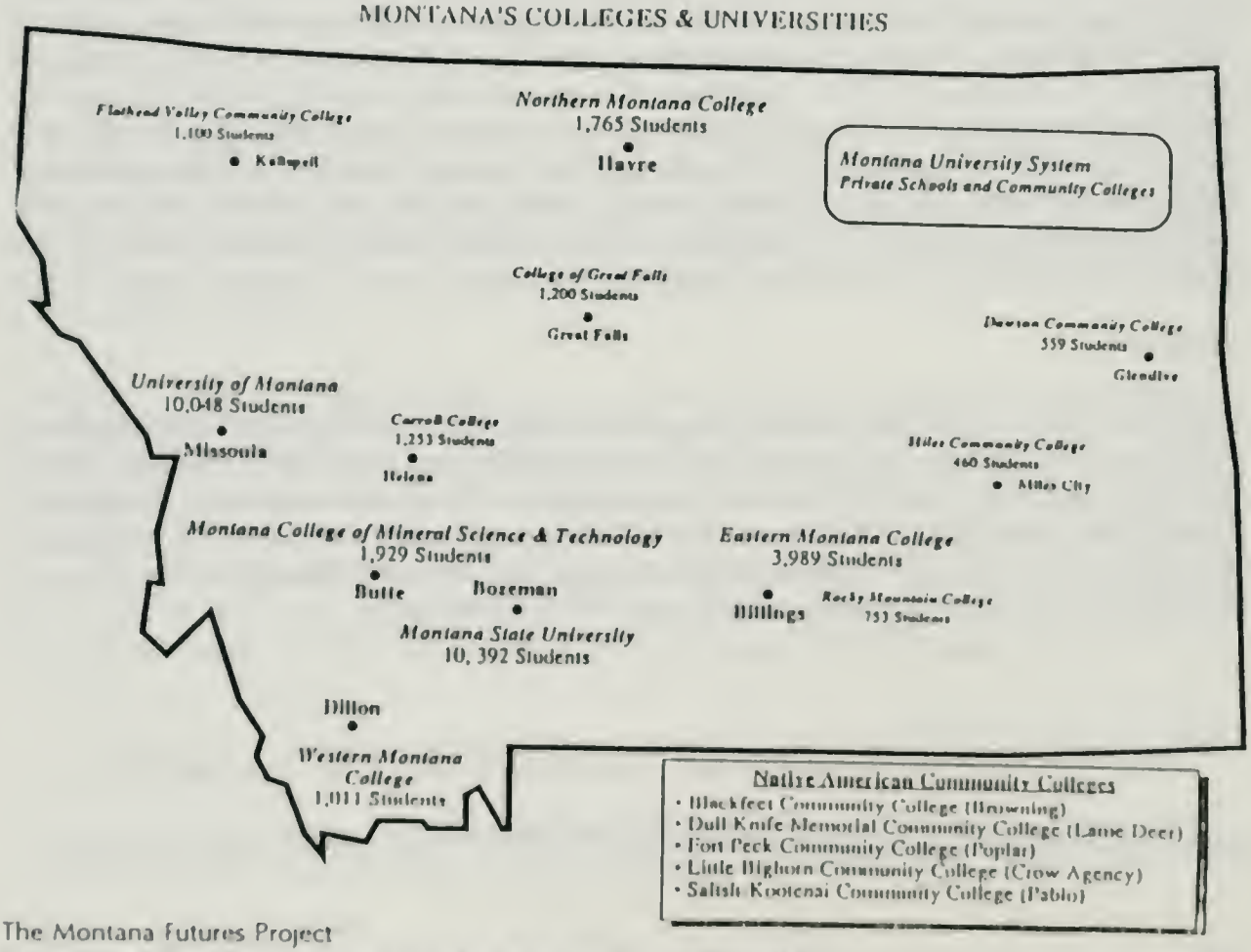
- The Advanced Materials and Process Sciences Center of Excellence is housed at Montana State University in Bozeman in cooperation with the Montana College of Mineral Science and Technology.

- The Institute of Chemical and Biological Process Analysis is housed at Montana State University (MSU) in Bozeman.

- An associated program, the Montana Entrepreneurship Center's central office is located at the University of Montana and its field offices are at Eastern Montana College in Billings and MSU in Bozeman.

There are five post-secondary vocational-technical centers in Montana that offer diverse curricula. The centers are located in Billings, Butte, Great Falls, Helena and Missoula and are governed by the Montana Board of Regents. Vo-tech programs are also available at Montana's community colleges and at Northern Montana College in Havre.

MONTANA'S COLLEGES & UNIVERSITIES



Montanans have a continuing commitment to Kindergarten through grade 12 education as evidenced by the following statistical averages:

- 87.3% of secondary school students graduate, ranking Montana 4th in the nation;
- Only 8% of adults in Montana are illiterate, ranking the state 4th in the nation;
- 40% of all high school graduates pursue college educations, and college entrance examination scores are the 3rd highest in the nation;
- 17% of Montana residents over the age of 25 are college graduates, ranking Montana 15th highest in the nation;
- Montana's quality educational system produces more Rhodes Scholars per capita than any other state;
- Montana ranks 9th in the nation in expenditures per student and 3rd in per capita expenditures for K-12 education;
- Montana's student:teacher ratio is less than 16:1, as compared to a national average of nearly 18:1.

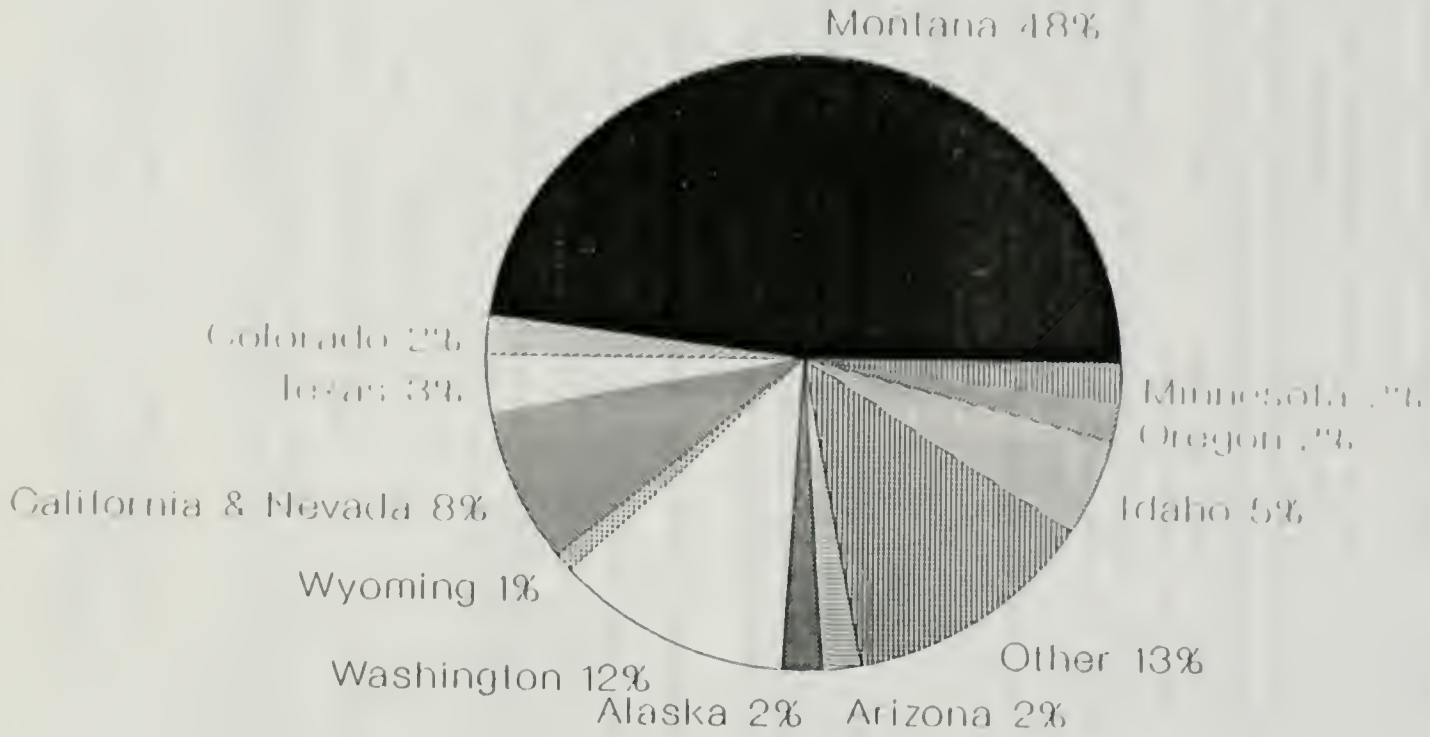
In its annual comparison of the fifty states' economic development programs, entitled "Report Card for the States," conducted by the Corporation for Enterprise Development, Montana ranked high in education. The state ranked 10th in high school graduation rates (down from 4th last year), 4th in adult literacy, up from 12th last year to 10th this year in the percentage of high school graduates in the work force, and down from 19th last year to 24th this year in the percentage of college-educated workers.

Comparison of Montana's Per Capita Funding for Higher Education and Professor's Salaries

	Montana	Colorado	Idaho	North Dakota	South Dakota	Utah	Wyoming	U.S
Funding per capita	1648	2085	1509	1668	1549	1529	2383	1986
Average salary of full-time professors*	34,737	43,175	36,841	36,244	35,384	41,581	44,293	47,067

* Data from National Center for Education Statistics, State Higher Education Profiles, fourth edition, U.S. Department of Education, Office of Educational Research and Improvement, FY 1988.

Location of 1990 Graduates
Montana State University



Source: MSU Career Services

Montana and the Rocky Mountain West have received unaccustomed attention as the brightest spot in the national economy during the past two years. In 1991, Montana was second in the nation in per capita income growth, followed only by Wyoming in that category. Wyoming's income grew by 5.1 percent and Montana's by 4.8 percent, compared to a national average of 2.1 percent income growth.[20] Montana's leadership in per-capita income growth stems to 1989, when the state registered a 9.4 percent increase over the previous year, compared to a U.S. average of 6.6 percent.

Total non-agricultural employment has increased in Montana every year for the past five years, from 275,400 to over 300,000 in 1991.[21] Between 1989 and 1990 net employment growth among small businesses was 9.8 percent, the growth rate among small exporters was 31.9 percent and women-owned small businesses had a 12.4 percent employment growth rate. Exporters of value-added products increased their share of total Montana export sales from 16 percent in 1987 to 28 percent in 1990 and up to 30 percent in 1991.

Despite these promising gains, from 1979 to 1989, real median household income in Montana (adjusted for inflation) fell from almost $26,000 to under $23,000 according to the 1990 census. Although Montana recently has taken the lead in per-capita income growth, over the past ten years Montana's real per-capita income grew only one-third as fast as income for the nation.

One consequence of this slow growth in income was an increase in poverty. The percentage of Montanans living in poverty rose from 12.3 percent in 1979 to 16.1 percent in 1989, and increase from 94,280 persons to 124,853 persons living in poverty. The slow population growth had the widely publicized political consequence of causing the state to lose one of its congressional representatives.

While these statistics can be viewed as contradictory, they actually illustrate the typical business cycle, with a heavy downturn during the first part of the '80s followed by moderate recovery after 1987. It is important, therefore, to look beyond the short-term cycles and recognize the long-term structural changes that are transforming Montana's economy.

Structural versus Cyclical Change

Montana, like other western states, is experiencing dynamic changes in the structure and positioning of its traditional industries. This change directly affects Montanans in several ways. For example, in the future, the natural resource sectors which have been historical growth sources for Montana's economy, will employ a smaller share of workers and contribute a smaller share of state and local taxes, thus intensifying the erosion of Montana's already limited tax base. The result of such shifts to the tax base, if the tax

[20] U.S. Department of Commerce, April 22, 1992.

[21] Montana Department of Labor and Industry, April 1992.

structure is not adjusted, may prevent state and local governments from providing on-going quality services (safety, water and sewer lines, upgraded roads, public education, health care, etc.) to the citizens of Montana. For example, the state's ability to help small communities deal with implementing federal Clean Water Act standards could be limited due to a lack of funding to support local infrastructure investments.

A key prerequisite in planning for these changes is to recognize that they are long-term and directional, rather than short-term and cyclical in nature.

Structural Changes and Montana's Economic Future

Since the late 1940s, Montana, like the United States as a whole, has moved its economy from "goods producing" to "service producing." This movement has occurred because of global competition, changing technology, and consumer preferences. Goods-producing activities such as mining and manufacturing are being outpaced by service-producing activities such as retail trade, financial services, general services, and communications and transportation services. The "information" and technology component--as well as the amount of automated work--continues to grow, even within traditional industries.

As Phillip M. Burgess of the Center for the New West noted in an address to the Symposium on Rural Development Policies for the 1990s, many of the "downturns" affecting Montana's economy are the result of widespread structural changes in the structure of supply and demand for many of the products of the western economy:

- "the changing structure of *agricultural export markets* as a result of the Green Revolution and other innovations in the technology and practice of growing things--with countries such as China and India now exporting food.

- the changing structure of *supply for mineral products* (copper, lead, zinc, molybdenum, etc.)--as recycling and new technologies of discovery and processing are giving us more and more products in areas where only a few years ago we were told we were running out.

- the changing *structure of demand*--as downsizing of homes and automobiles and the substitution of new materials (such as fiber optic for copper lines) uses fewer units of materials traditionally produced in the rural areas of the West."[22]

Alvin Toffler, author of *Powershift,* acknowledges that the most important economic development in this decade has been the rise of a new system for creating wealth, based upon the "power of the mind"--people acting on information and information acting upon people. "The spread of this new knowledge economy is, in fact, the explosive new force that has hurled the advanced economies into bitter global competition, confronted the socialist nations with their hopeless obsolescence, forced many 'developing nations' to

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[22] Phillip M. Burgess, "The Role of Private Institutions in Rural Development," Rural Development Policies for the 1990s Symposium Remarks, Center for the New West, September 29, 1988.

scrap their traditional economic strategies, and is now profoundly dislocating power relationships in both personal and public spheres."[23]

The extent and persistence of these structural changes is illustrated in the graphs on pages prepared by the Research and Analysis Bureau of the Montana Department of Labor and Industry which cover fifty years of employment history for various industry sectors in the state. The employment within a given industry is shown as a percentage of the total non-farm employment from 1947 through the 1997 forecast.

Over the fifty-year period, mining employment fell from 7 percent of all Montana employment to 2 percent.

The percentage share of Montana's employment provided by manufacturing, including lumber and timber production, has fallen over fifty years from 18.4 percent of all non-ag jobs, to 7 percent. Thus, manufacturing and timber employment are not disappearing, they are rather becoming a smaller part of a larger whole. In 1947 there were 18,400 manufacturing jobs out of 138,000 total. In 1991, there were 21,700 manufacturing jobs out of 302,00 total.

The same trend applies for transportation, communications and public utilities with a fifty-year drop from 16 percent of total non-ag employment to 7 percent of the total.

Finance, insurance and real estate doubled, from 2.6 percent of total employment to almost 5 percent during the fifty-year period. This represents an increase from 3,600 jobs to a projected 14,500 jobs in 1997.

Wholesale and retail trade fluctuates widely over the fifty-year period but indicates a growth trend from 25 percent to 27 percent of all employment or from 34,100 to 85,000 jobs.

The service industry includes professional services such as medical doctors and technicians, attorneys, accountants, hotel management and staff, recreational and tourism and fast food establishments. This industry has steadily grown throughout the fifty-year period, providing from 13 percent to 26 percent of all nonagricultural jobs. This represents growth from 17,400 jobs in 1947 to a projected 81,000 jobs in 1997.

The result of these long-term structural changes has been to change Montana's overall economy. The following charts show the impacts of these changes upon Montana's "largest industries." Finance/insurance/real estate are the largest industry sector, services are second largest, followed by transportation/communication/utilities, retail trade and manufacturing.

The largest private industries by the number of persons employed are indicated in Exhibit 8. The service sector ranks first, followed by retail trade, farming, finance/insurance/real estate, and manufacturing (including timber). If government were counted (federal, state and local), it would be in second place. Government employment as a percent of total employment has fallen from 27 percent in 1968 to 24 percent in 1992.

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[23] Alvin Toffler, Powershift (New York: Bantam, 1990), p.9.

The largest private industries by personal income and earnings are shown in Exhibit 9. Services rank first, followed by retail trade, transportation/communications/utilities, manufacturing and farming. Again, government, if it were counted would be ranked in second place.

In summary, the service-producing sector accounts for about 63 percent of all non-farm employment in Montana. The sector is make up of general services (including health services, retail and wholesale trade, finance/insurance/real estate and transportation/communications/utilities) accounts for about 63 percent of all non-farm employment in Montana. The goods-producing industries (manufacturing, construction and mining, including agricultural and forestry services) account for about 13 percent and government accounts for 24 percent. Farming represents 7.3 percent of Montana's total employment.

While the natural resource industries remain a large, key part of Montana's economic foundation, the movement of employment and incomes toward the service-producing sector has been persistent and dramatic. This has resulted in other fast-growing industries in the service-producing sector that are of equal and even greater size than Montana's traditional major industries.

Montana mirrors the national economy, as indicated by the "Structural change in US and Montana" charts on page 52. The state is not alone in either the way employment and earnings are distributed among industry sectors nor in the direction of change in the share of employment and earnings within industries. Mining employment was cut almost in half between 1960 and 1990 in both Montana and the whole U.S. Montana manufacturing fell from 12 percent to 7.5 percent, while U.S. manufacturing fell from 31 percent to 19 percent. In both Montana and the U.S. the service sector grew to represent 63 percent of non-farm Montana jobs and 59 percent of non-farm jobs nationally.

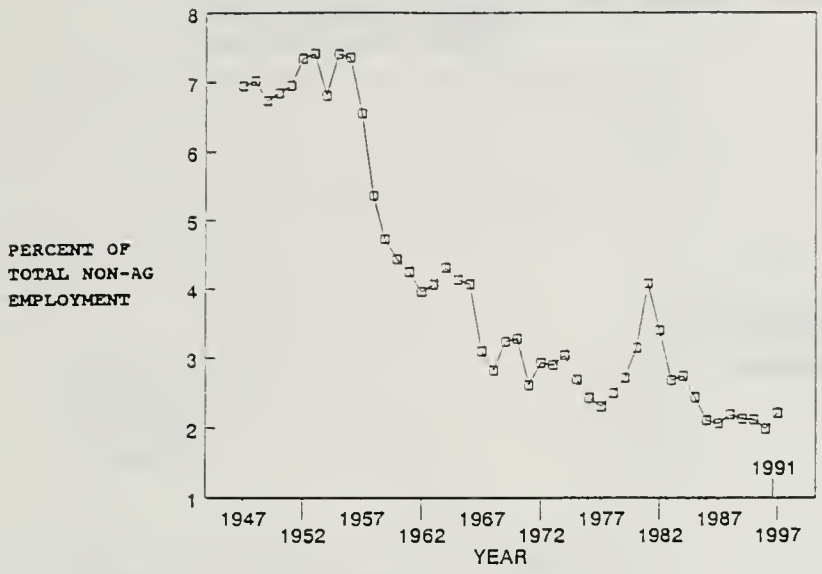
Thus the changes experienced in Montana are not the result of special circumstances, policies or business climate issues in Montana alone. These same changes are happening throughout the U.S. in response to changes in the global economy.

The natural resource industries will remain large, important and viable industries in Montana and any realistic plan for the future must include a leading role for the traditional "big three": agriculture, mining and lumber. Meanwhile, it is important to recognize that these industries will not be the source of the next round of long-term growth in employment and incomes. Instead, these sectors can act as a foundation, providing a basis for investment, diversification and growth in more specialized, value-added markets.

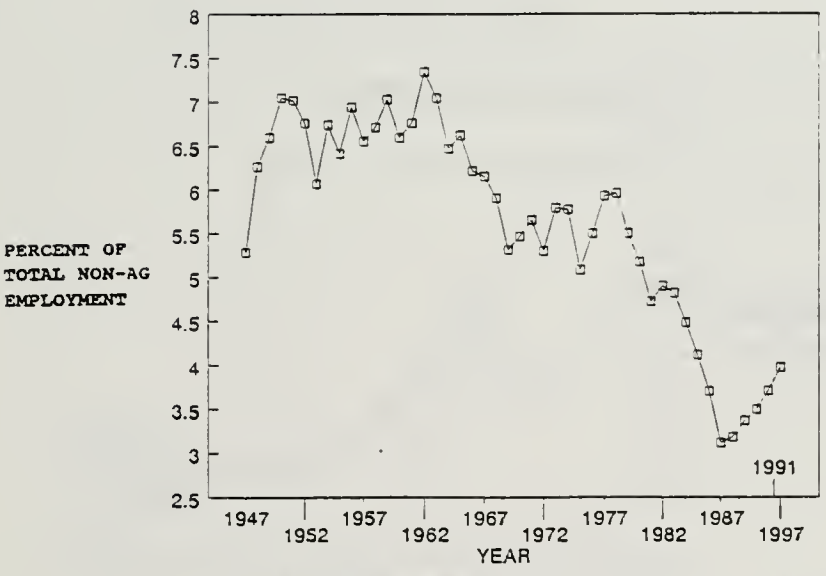
As structural transitions continue to affect the national and state economies, their impacts will ultimately move the U.S. economy beyond mass production toward increasing customization, beyond mass marketing and distribution towards niches and micro-marketing, beyond the monolithic corporation to new forms of organization, and beyond nation-states to operations that are both local and global; and they will change the role of the worker from "manual labor" to "mind labor." Montana's economy can be expected to mirror the nation and will be placed under pressure to respond in similar ways to the effects of these global structural transitions.

EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES
- 50-YEAR TIME SERIES -

INDUSTRY: MINING



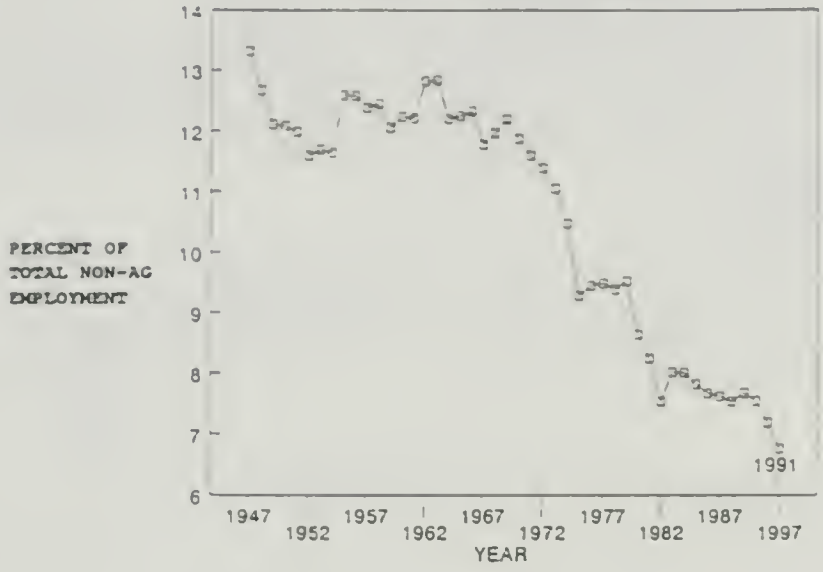
INDUSTRY: CONSTRUCTION



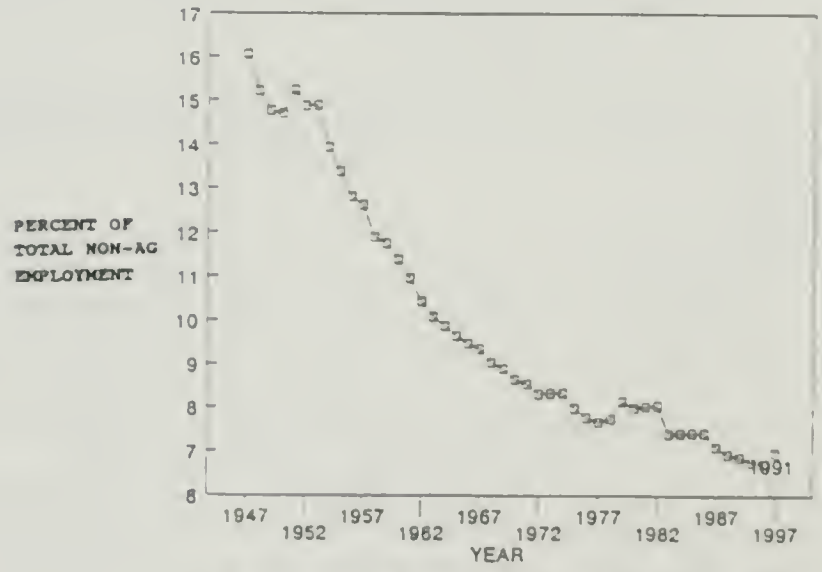
Source: Montana Dept. of Labor & Industry, 1992.

EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES
- 50-YEAR TIME SERIES -

INDUSTRY: MANUFACTURING
(includes lumber and timber)



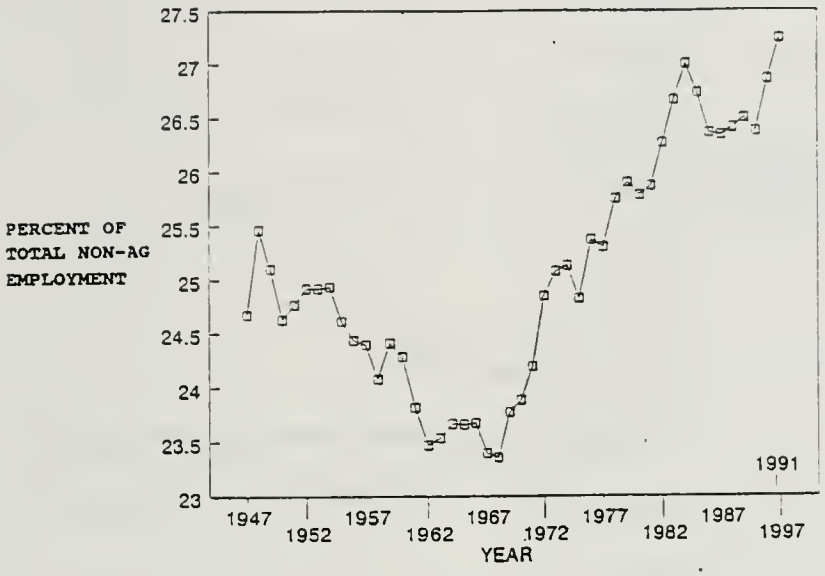
INDUSTRY: TRANS, COMM, PUB UTIL



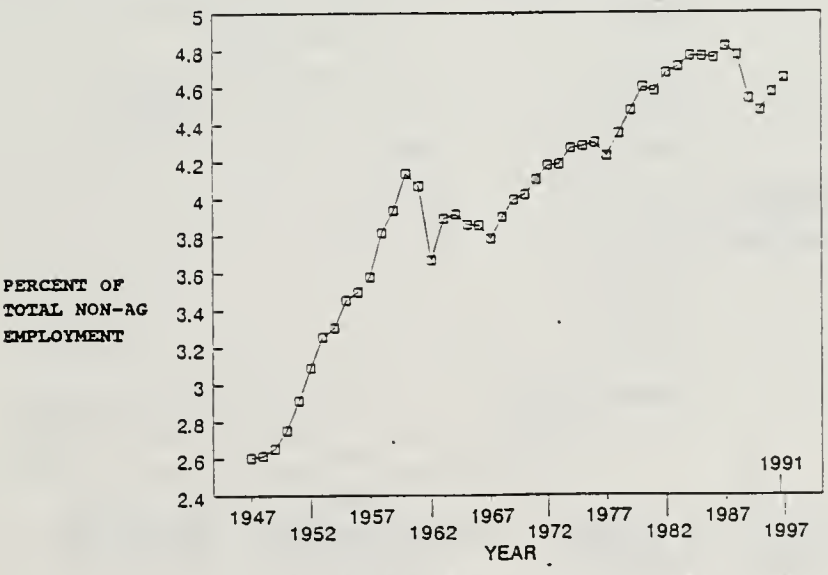
Source: Montana Dept. of Labor & Industry, 1992.

EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES
- 50-YEAR TIME SERIES -

INDUSTRY: TRADE



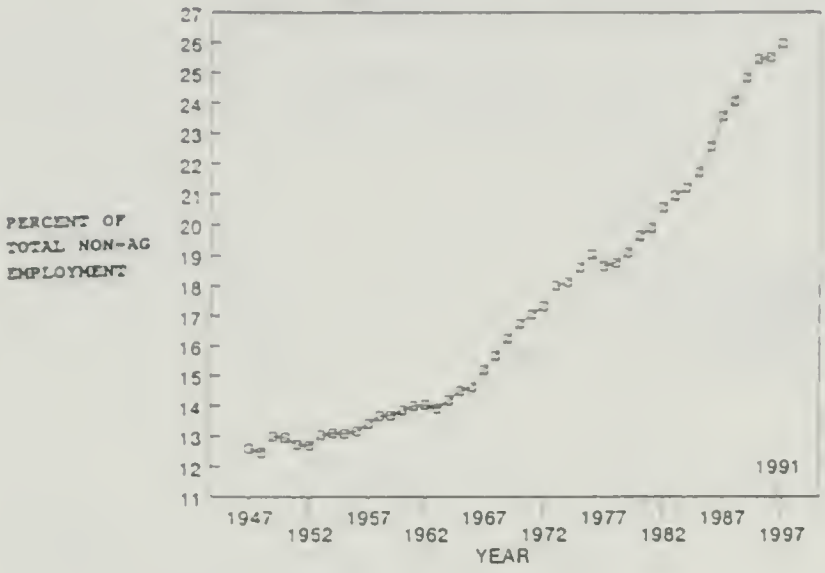
INDUSTRY: FINANCE, INSURANCE, R.ESTATE



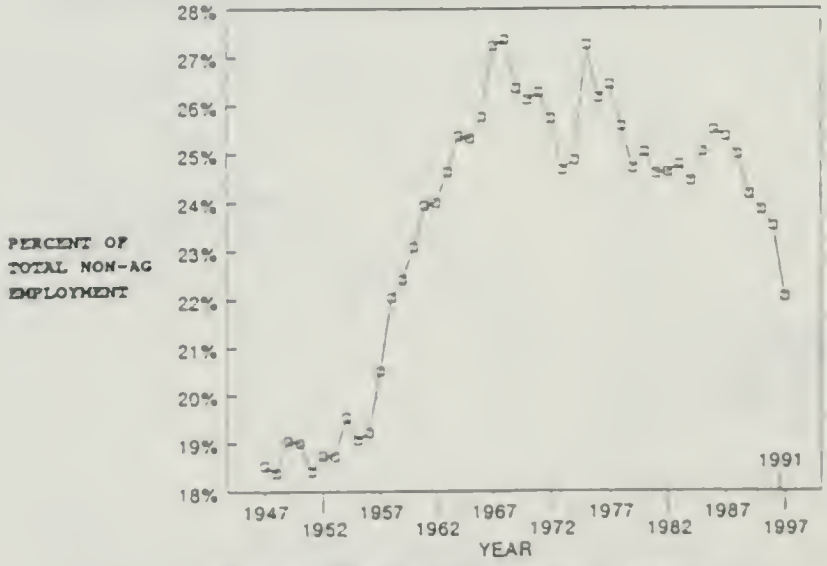
Source: Montana Dept. of Labor & Industry, 1992.

EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES
- 50-YEAR TIME SERIES -

INDUSTRY: SERVICES



INDUSTRY: GOVERNMENT



Source: Montana Dept. of Labor & Industry, 1992.

MONTANA EMPLOYMENT BY INDUSTRY 1947-1997

(Shown in thousands and as a percent of total non-ag employment)

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
NON-AG	138.2	145.3	147	149	151	155.3	158.5	157.2	162.1	168.0	164.8	162.4	165.1	166.8	167.1	171.7	174.6	178.2	181.3	186.7	190.2	194.8	197.7
MFG	18.4	18.4	17.8	18	18.1	18	18.3	18.3	20.4	21.2	20.4	20.2	19.9	20.4	20.4	22	22.4	21.5	22.2	23	22.4	23.3	24.1
MINING	9.0	10.2	9.0	10.2	10.5	11.4	11.0	10.7	12	12.4	10.8	8.7	7.8	7.4	7.1	6.8	7.1	7.0	7.5	7.0	5.0	5.5	6.4
CONSTR	7.3	9.1	9.7	10.5	10.0	10.5	9.5	10.0	10.4	11.7	10.8	10.0	11.0	11	11.3	12.0	12.3	11.4	12	11.0	11.7	11.5	10.5
TCPU	22.2	22.1	21.7	21.0	23	23.1	23.3	21.0	21.7	21.0	20.8	19.3	19.4	19	18.3	17.0	17.8	17.4	17.5	17.7	17.8	17.0	17.0
TRADE	34.1	37	36.9	36.7	37.4	38.7	39	39.2	39.9	41.2	40.2	39.1	40.3	40.5	39.8	40.3	41.1	41.7	42.9	44.2	44.5	45.5	47
FIRE	3.0	3.6	3.9	4.1	4.4	4.6	5.1	5.2	5.6	5.9	5.9	6.2	6.5	6.9	6.8	6.3	6.8	6.9	7	7.2	7.2	7.6	7.9
SERVICES	17.4	18.1	19.1	19.3	19.2	19.7	20.4	20.6	21.2	22.2	22.1	22.2	22.6	23.1	23.4	24.1	24.3	25	26.3	27.3	28.9	30.5	32.1
GOV	25.6	26.7	28	28.3	27.8	29.1	29.3	30.7	30.9	32.4	33.8	35.8	37	38.5	40	41.2	43	44.7	45.9	48.1	51.6	53.3	52.1
PERCENTAGES	1947					1952					1957					1962					1967		
NON-AG	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
MFG	13	13	12	12	12	12	12	12	13	13	12	12	12	12	12	13	13	12	12	12	12	12	12
MINING	7	7	7	7	7	7	7	7	7	7	7	5	5	4	4	4	4	4	4	4	3	3	3
CONSTR	5	6	7	7	7	7	6	7	6	7	7	7	7	7	7	7	7	6	7	6	6	6	5
TCPU	16	15	15	15	15	15	15	14	13	13	13	12	12	11	11	10	10	10	10	9	9	9	9
TRADE	25	25	25	25	25	25	25	25	25	24	24	24	24	24	24	23	24	24	24	24	23	23	24
FIRE	3	3	3	3	3	3	3	3	3	3	4	4	4	4	4	4	4	4	4	4	4	4	4
SERVICES	13	12	13	13	13	13	13	13	13	13	13	14	14	14	14	14	14	14	15	15	15	16	16
GOV	19	18	19	19	18	19	19	20	19	19	21	22	22	23	24	24	25	25	25	26	27	27	26

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
NON-AG	201.4	207.1	215.3	224.5	234	238.1	251.1	264.8	280.4	283.6	280.4	281.8	273.7	276	281.1	279.1	275.4	276	282.9	291	297.3	302	312.1
MFG	23.9	24	24.5	24.8	24.5	22.1	23.7	25.1	26.3	27	24.2	23.2	20.6	22.1	22.5	21.6	21.1	21	21.3	22.3	22.4	21.7	21.1
MINING	6.6	5.4	6.3	6.5	7.1	6.4	6.1	6.1	7	7.7	8.8	11.5	9.3	7.4	7.7	6.6	5.8	5.7	6.2	6.2	6.3	6	6.9
CONSTR	11	11.7	11.4	13	13.5	12.1	13.8	15.7	16.7	15.8	14.5	13.3	13.4	13.3	12.6	11.5	10.2	8.6	9	9.8	10.4	11.2	12.4
TCPU	17.4	17.7	17.9	18.7	19.5	19	19.5	20.3	21.7	23.1	22.4	22.6	22	20.4	20.8	20.7	20.4	19.6	19.6	20	20.1	20.3	21.7
TRADE	48.1	50.1	53.5	56.3	58.8	59.1	63.7	67	72.2	73.5	72.3	72.9	71.9	73.6	75.9	74.6	72.6	72.7	74.7	77.1	78.4	81.1	85
FIRE	8.1	8.5	9	9.4	10	10.2	10.8	11.2	12.2	12.7	12.0	12.9	12.8	13	13.4	13.3	13.1	13.3	13.5	13.2	13.3	13.6	14.5
SERVICES	33.7	35.3	37.3	40.4	42.4	44.3	47.8	49.4	52.6	54.2	55.1	56.1	56.3	57.8	59.6	60.6	62.1	65	68	72.2	75.6	77	81
GOV	52.6	54.4	55.4	55.4	58.2	64.9	65.7	70	71.7	70.1	70.2	69.3	67.4	68.4	68.7	69.9	70.2	70	70.7	70.3	70.9	71	65.6
PERCENTAGES			1972					1977					1982					1987					1992
NON-AG	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
MFG	12	12	11	11	10	9	9	9	9	10	9	8	8	8	8	8	8	8	8	8	8	7	7
MINING	3	3	3	3	3	3	2	2	2	3	3	4	3	3	3	2	2	2	2	2	2	2	2
CONSTR	5	6	5	6	6	5	5	6	6	5	5	5	5	5	4	4	4	3	3	3	3	4	4
TCPU	9	9	8	8	8	8	8	8	8	8	8	8	8	7	7	7	7	7	7	7	7	7	7
TRADE	24	24	25	25	25	25	25	25	26	26	26	26	26	27	27	27	26	26	26	26	26	27	27
FIRE	4	4	4	4	4	4	4	4	4	4	5	5	5	5	5	5	5	5	5	5	4	5	5
SERVICES	17	17	17	18	18	19	19	19	19	19	20	20	21	21	21	22	23	24	24	25	25	25	26
GOV	26	26	26	25	25	27	26	26	26	25	25	25	25	25	24	25	25	25	25	24	24	24	21

CHANGES IN MAJOR COMPONENTS OF PERSONAL INCOME MONTANA VS. THE UNITED STATES (1000s OF DOLLARS)

UNITED STATES	1960	1970	1980	1990
TOTAL PERSONAL INCOME	405,658,000	824,823,000	2,259,383,000	4,649,706,000
FARM INCOME 1/	6.04%	3.98%	1.45%	1.88%
LABOR INCOME 2/	69.36%	70.06%	66.80%	64.55%
PROPRIETORS' INCOME 3/	12.64%	9.66%	7.62%	7.82%
UNEARNED INCOME	20.35%	23.64%	29.50%	32.46%
DIV., INT., & RENT	13.08%	13.38%	15.24%	17.69%
TRANSFER PAYMENTS 4/	7.27%	10.26%	14.26%	14.77%

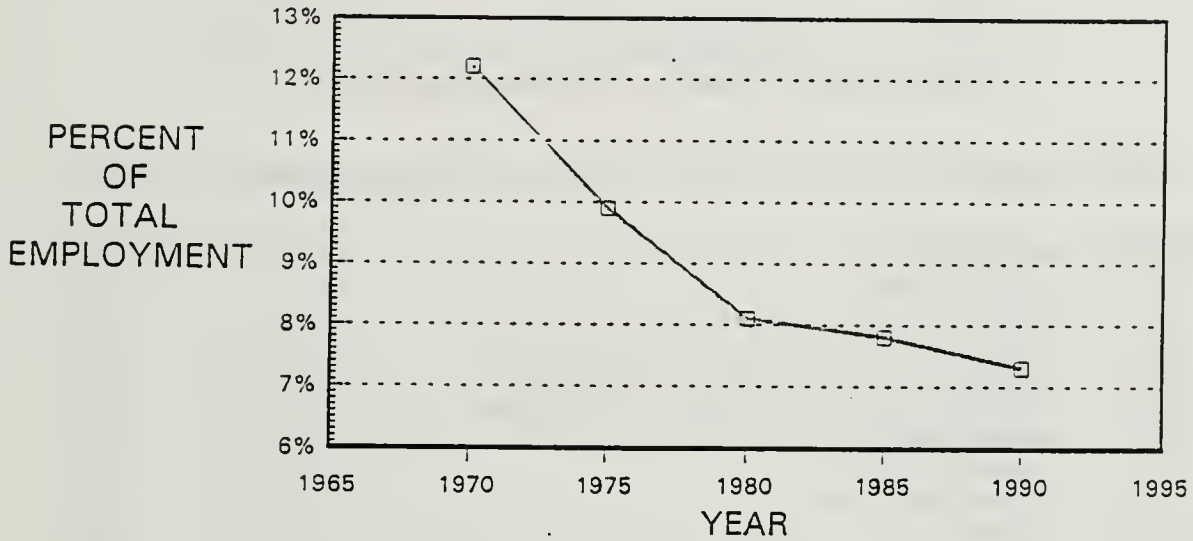
MONTANA	1960	1970	1980	1990
TOTAL PERSONAL INCOME	1,393,080	2,226,767	6,879,179	11,708,850
FARM INCOME 1/	19.95%	24.40%	1.45%	5.16%
LABOR INCOME 2/	59.74%	64.12%	61.25%	53.16%
PROPRIETORS' INCOME 3/	19.92%	22.65%	9.61%	11.79%
UNEARNED INCOME	23.08%	27.62%	33.10%	39.66%
DIV., INT., & RENT	14.32%	15.49%	18.07%	19.75%
TRANSFER PAYMENTS 4/	8.76%	12.13%	15.03%	19.91%

1/ Includes both labor and proprietors' income earned in farming.
2/ Includes both farm and nonfarm labor income.
3/ Includes both farm and nonfarm owners income.
4/ Largest element of transfers are Social Security and Medicare.

UNITED STATES DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS. 09/92

EMPLOYMENT SHARES OF MAJOR MONTANA INDUSTRIES

INDUSTRY: AGRICULTURE



SOURCE: BUREAU OF ECONOMIC INFORMATION 09/92
DATA PRIOR TO 1970 ARE NOT COMPARABLE
TO LATER YEARS.

FULL-TIME AND PART-TIME EMPLOYMENT IN MONTANA, 1991

Total Employment	438,073
Wage and Salary	332,547
Proprietors	105,526
Non-Farm	81,768
Farm	23,758

Employment by Major Industry Sectors

Rank	Sector	Employment	Percent
#1	Services	117,193	26.75
#2	Retail Trade	81,780	18.67
#3	Government & Government Enterprises	80,463	18.37
#4	Farm	30,718	7.01
#5	Finance, Insurance & Real Estate	28,190	6.43
#6	Transportation & Public Utilities	24,565	5.61
#7	Manufacturing	24,404	5.57
#8	Construction	20,973	4.79
#9	Wholesale Trade	17,121	3.91
#10	Mining	6,712	1.53
#11	Agricultural Services, Forestry, Etc.	5,954	1.36
	Total	**438,073**	**100.00**

U.S. DEPT. OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS 09/92

PERSONAL INCOME AND EARNINGS IN MONTANA, 1991
(In thousands of dollars unless stated otherwise)

Total Personal Income	12,672,947
Nonfarm Personal Income	11,783,950
Farm Income	491,526
Population (1991 midyear estimate)	808,000
Per Capita Personal Income (dollars)	15,675
Per Capita Personal Income Rank	39th

Earnings of Individuals by Major Industry Sectors

Rank	Sector	Earnings	Percent
#1	Services	1,998,329	24.44
#2	Government & Government Enterprises	1,726,639	21.12
#3	Retail Trade	1,033,458	12.64
#4	Transportation & Public Utilities	734,764	8.99
#5	Manufacturing	673,094	8.23
#6	Farm	491,526	6.01
#7	Construction	442,656	5.41
#8	Wholesale Trade	427,176	5.23
#9	Finance, Insurance & Real Estate	331,557	4.06
#10	Mining	250,720	3.07
#11	Agricultural Services, Forestry, Etc.	65,349	0.80
	Total	**8,175,268**	**100.00**

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STRUCTURAL CHANGE IN U.S. AND MONTANA INDUSTRY EMPLOYMENT

Employment Trends as a Percent of Total Nonfarm Employment

Year/Industry Sector	1960	1970	1980	1990
MT Mining	4.4%	3.3%	3.1%	2.1%
U.S. Mining	1.3%	0.9%	1.1%	0.7%
MT Manufacturing	12.2%	11.9%	8.6%	7.5%
U.S. Manufacturing	31.0%	27.3%	22.4%	19.0%
MT Service-Producing	53.7%	53.3%	58.0%	63.0%
U.S. Service-Producing	46.9%	49.0%	53.7%	59.0%
MT Government	23.1%	26.1%	25.0%	23.9%
U.S. Total Government	15.4%	17.7%	18.0%	16.5%

Source: Annual Planning Information for 1991-1992, Montana Department of Labor & Industry, and the 1991 Statistical Abstract of the United States, U.S. Department of Commerce.

Global competition, changing technology, worker productivity, and consumer preferences for more services have shifted employment opportunities toward the service-producing sector. The Montana historical trend parallels the U.S. historical trend. Apart from cyclical fluctuations, these trends represent fundamental structural changes in employment opportunities which can be expected to continue through the decade of the 1990s.

Montana in Comparison to Its Neighboring States

Montana, with a total population of 799,065, is bordered by Idaho, Wyoming, North Dakota, and South Dakota. Three Canadian provinces are northern neighbors. Montana and each neighboring state have similar socio-economic characteristics and make up a homogeneous region within the broader U.S. economy. The five states have the same economic base of basic industries and have experienced similar trends in non-farm labor income:

- Farming and agriculture
- Mining and mineral extraction
- Rail transportation
- Lumber and paper products
- Manufacturing
- Food processing
- Nonresident travel (tourism)
- Federal government civilian and military activity

Socio-economic Factors

Using data taken from the 1991 *Statistical Abstract of the United States,* U.S. Department of Commerce, the NASDA economic analysis[24] compared Montana to its four neighboring states to understand its recent economic performance (by percentage change) in four key socio-economic categories:

1) State resident population;
2) Number of households;
3) Non-farm employment growth; and
4) Real per-capita personal income.

Then the analysis compared Montana's performance to the United States as a whole for the same four socio-economic categories. The bar graphs in Chart A provide a visual presentation of the states' performance in comparison to Montana's performance as follows:

- Montana experienced a greater percentage change in resident population from 1980 to 1990 than Wyoming, North Dakota, and South Dakota. Idaho's population grew five percentage points more than Montana's during this period.

- Montana had a larger percentage change in the number of households from 1980 to 1990 than Wyoming, North Dakota, and South Dakota. Idaho's households increased four percentage points more than Montana's during this period.

[24] Richard Booser, "An Economic Analysis of the State of Montana," prepared for the National Association of State Development Agencies, March 1992.

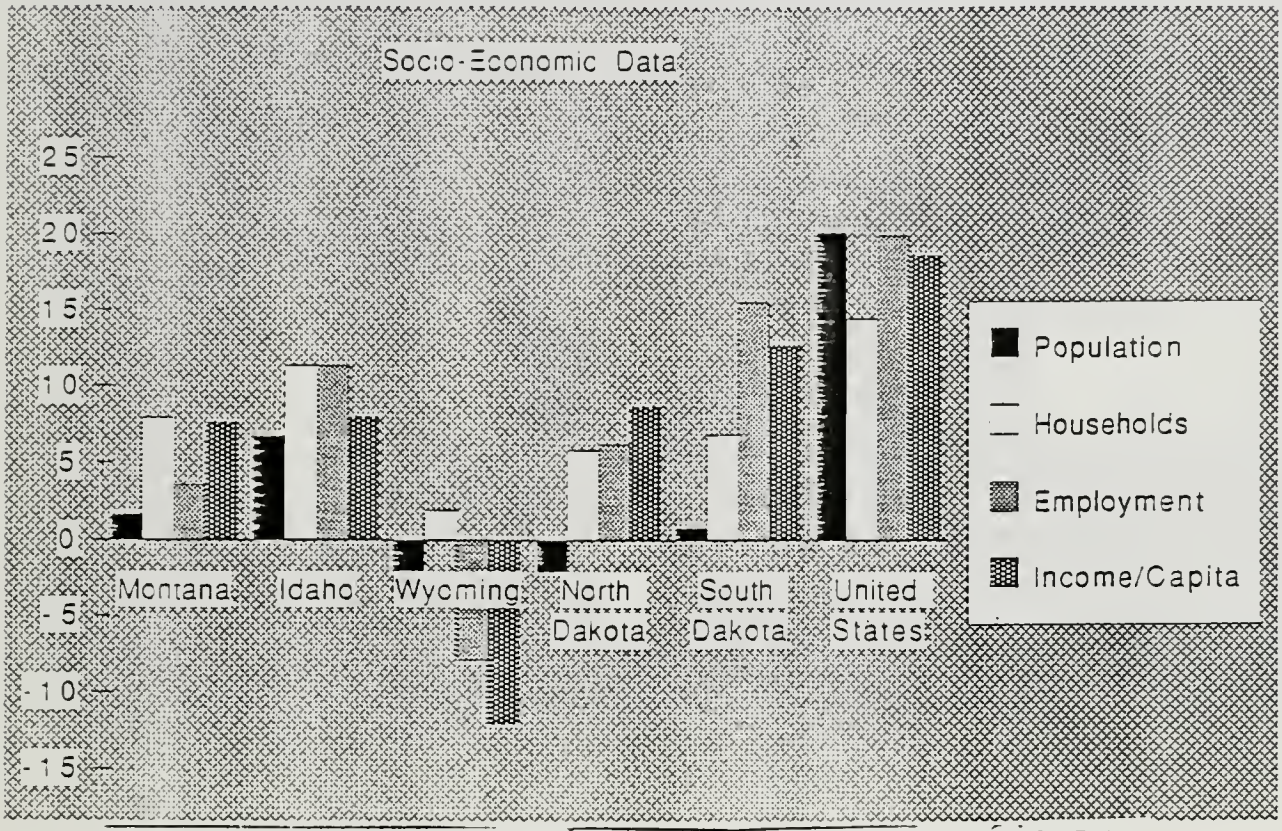
- Between 1980 and 1989, Montana realized a smaller percentage growth in the level of non-farm employment (2.5 percent) than all its neighbors except Wyoming, where non-farm employment actually declined. North Dakota, South Dakota, and Idaho outpaced Montana in non-farm employment growth during the same period, with South Dakota (the highest) gaining more than 15 percent.

- Between 1980 and 1989, Montana had a smaller percentage growth in real per-capita personal income (7 percent) than the other states except for Wyoming, where real per-capita personal income decreased. North Dakota, South Dakota, and Idaho outpaced Montana in the percentage change of real per-capita personal income for the period, with South Dakota (the highest) growing more than 12 percent.

- Montana lags behind total growth in the United States in all four categories. U.S. income, for example, grew more than 20 percent.

CHART A

Growth Rates in Population, Households, Employment and Per-Capita Income



States-Region	RESIDENT POP	HOUSHLDS	NFARM EMP*	RP-INC/CAP*
Montana	1.6	7.9	3.6	7.6
Idaho	6.7	11.3	11.3	8
Wyoming	-3.4	1.9	-7.9	-12.1
Colorado	14	20.8	17.6	12.4
New Mexico	16.3	22.9	20.5	5.8
Arizona	34.8	43	43.7	14.6
Utah	17.9	19.8	25.4	11.1
Nevada	50.1	53.2	45.6	12.1
North Dakota	-2.1	5.8	6.2	8.7
South Dakota	0.8	6.8	15.5	12.6
Mountains	9.8	26.3	24.7	10.7
United States	20.1	14.4	19.9	18.6

"Gap" Analysis

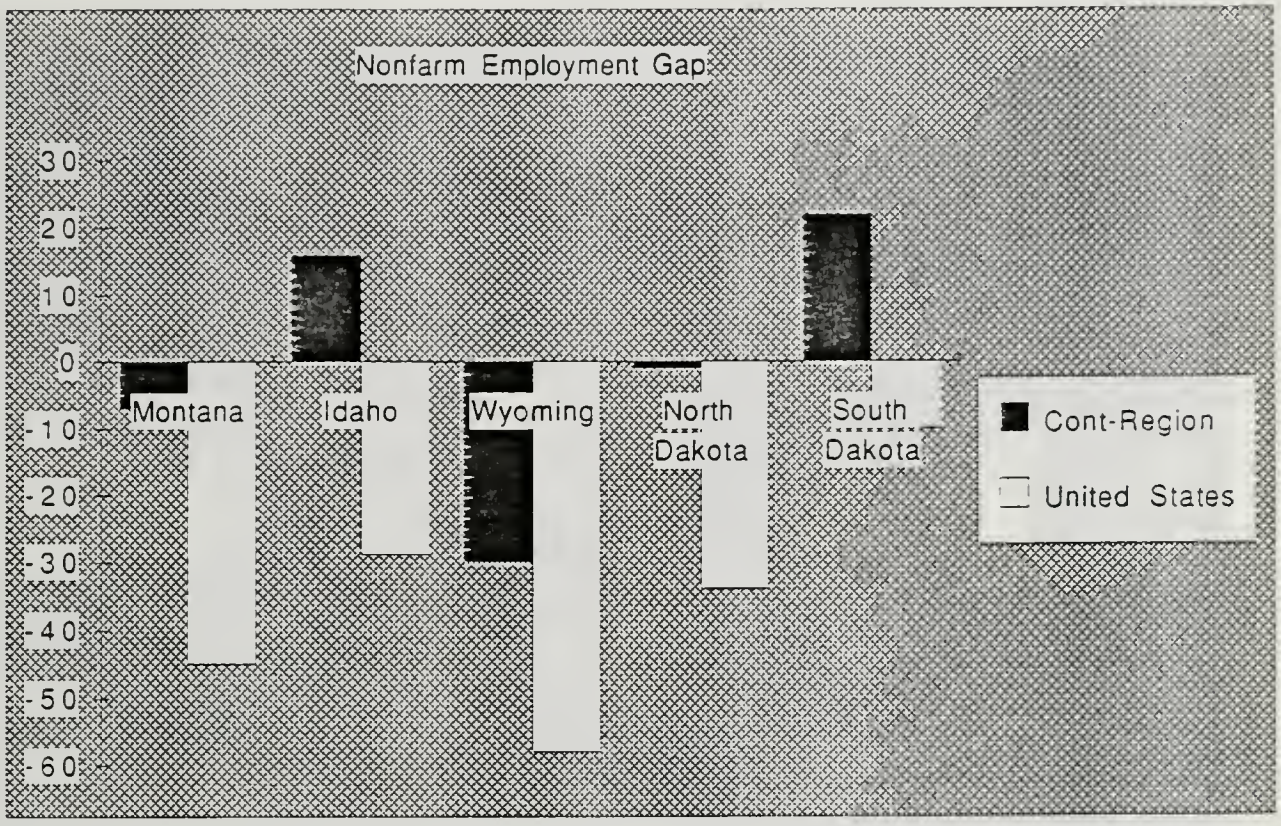
NASDA then conducted a "gap" analysis comparing Montana's performance to the performance of the five states making up the contiguous region and to the United States as a whole, for the same four socio-economic categories during the 1980-1989 period. This "gap" analysis describes change in statistics as being a "positive gap" if the change is greater than the comparison group, or a "negative gap" if change is less. In other words, it treats growth in the comparison group as being normal, or equal to zero, and deviations above or below the comparison group are considered positive or negative.

Charts B, C, D, and E, which follow on the next pages, show comparisons for the four economic indicators:

1) Non-farm Employment;
2) Total Real Personal Income;
3) Manufacturing Production Worker Hourly Earnings; and
4) Real Per Capita Personal Income.

CHART B

Gap Analysis: Employment Growth Compared to the Region and to the Nation.



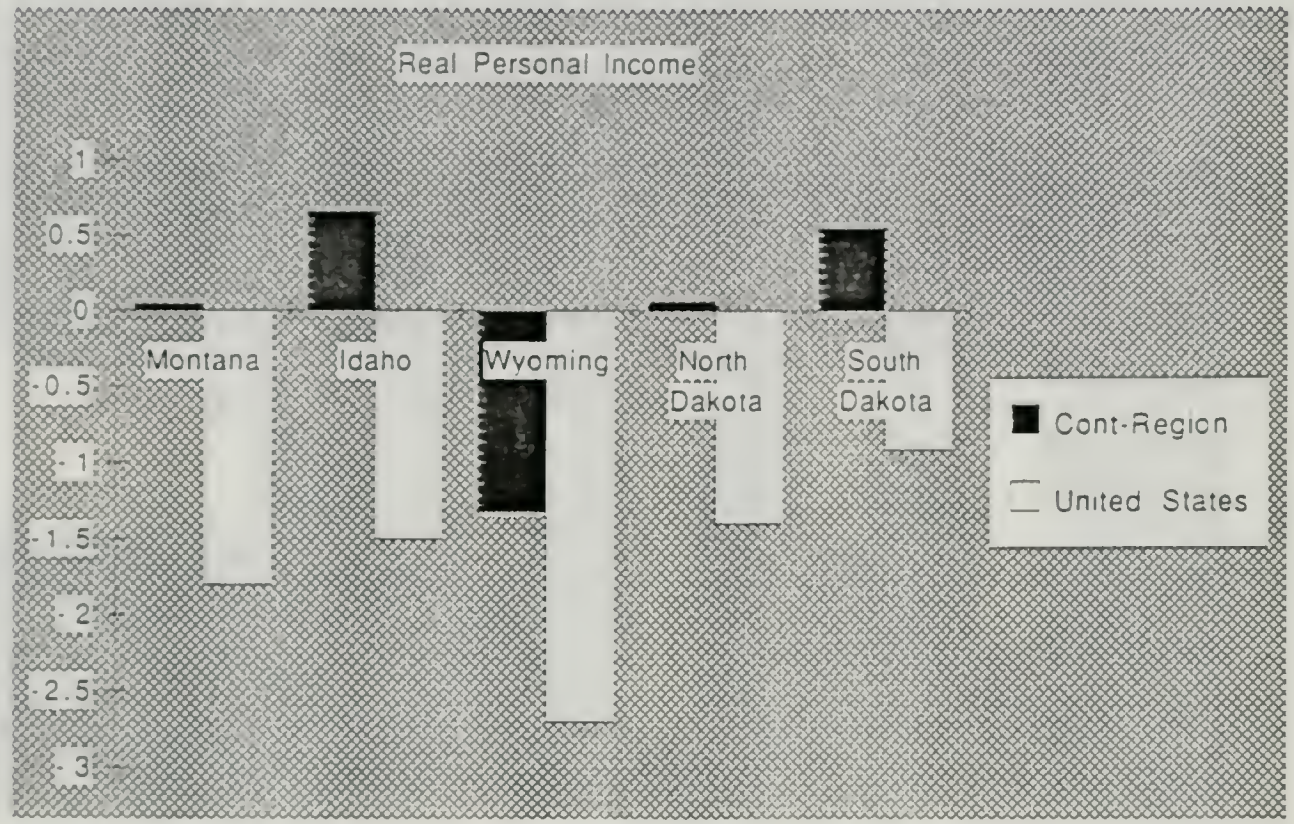
Non-farm Employment Growth (1985-1989)

	MONTANA	IDAHO	WYOMING	NORTH DAKOTA	SOUTH DAKOTA
United States	-19.17	-6.54	-36.12	-20.15	-1.82
Cont-Region	-1.50	14.75	-23.01	-4.19	13.95

Chart B illustrates growth in non-farm employment relative to the contiguous region and the U.S. economy. Montana experienced negative employment growth relative to the contiguous region and the U.S. economy. Only Idaho and South Dakota display positive employment growth, and then only when compared to the contiguous region. On the whole, Montana and the four contiguous states display lower employment gains than the U.S. economy.

CHART C

Gap Analysis: Real Personal Income Compared to the Region and to the Nation



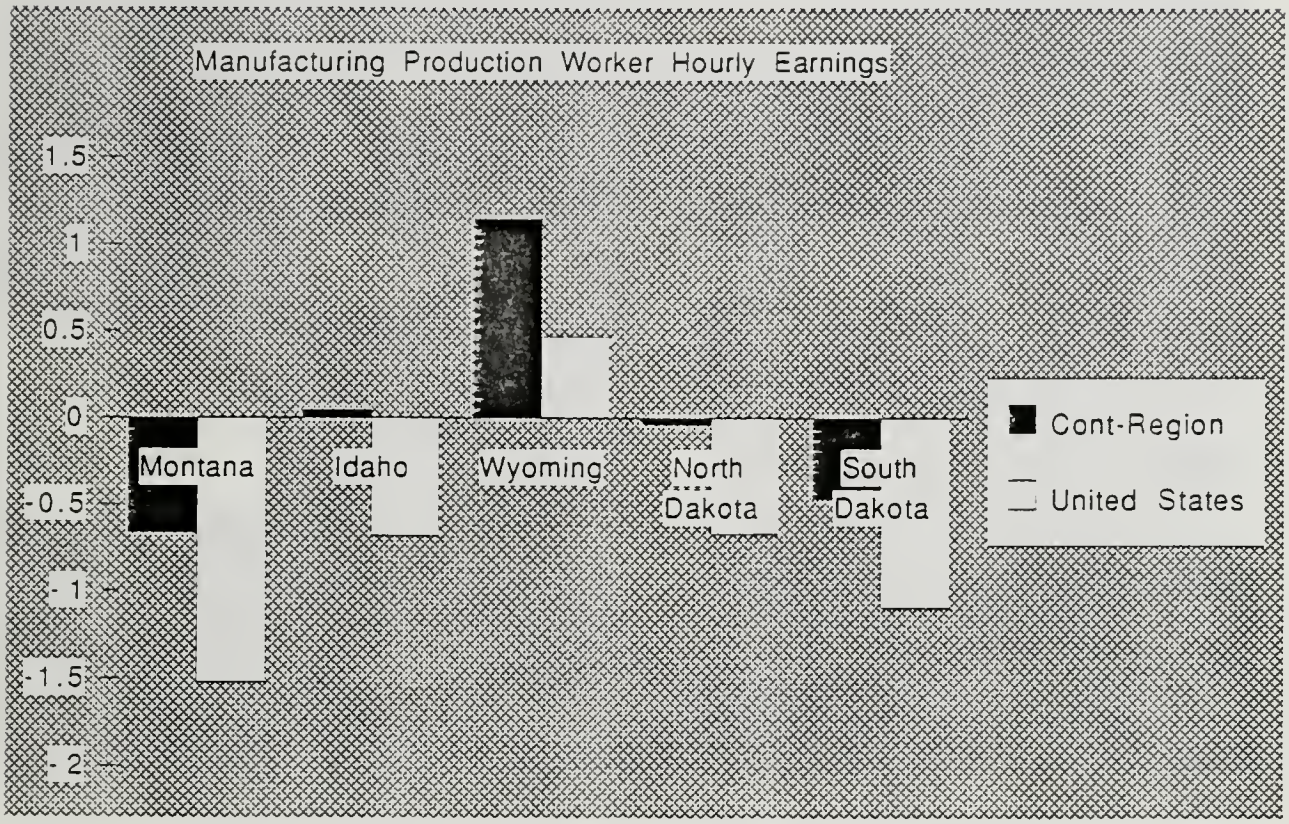
Real Personal Income Growth (1985-1989)

	MONTANA	IDAHO	WYOMING	NORTH DAKOTA	SOUTH DAKOTA
United States	-0.46	-0.27	-1.37	-1.36	-0.42
Cont-Region	0.37	0.72	0.77	-0.61	0.30

Chart C illustrates growth in total real personal income relative to the contiguous region and the U.S. economy. Montana, Idaho, North Dakota, and South Dakota display positive growth in real personal income relative to the contiguous region. Montana's growth level is the smallest of the four positive growth positions. All five states display negative growth in real personal income when compared to the U.S. economy.

CHART D

Gap Analysis: Manufacturing Production Worker Hourly Earnings Compared to the Region and the Nation



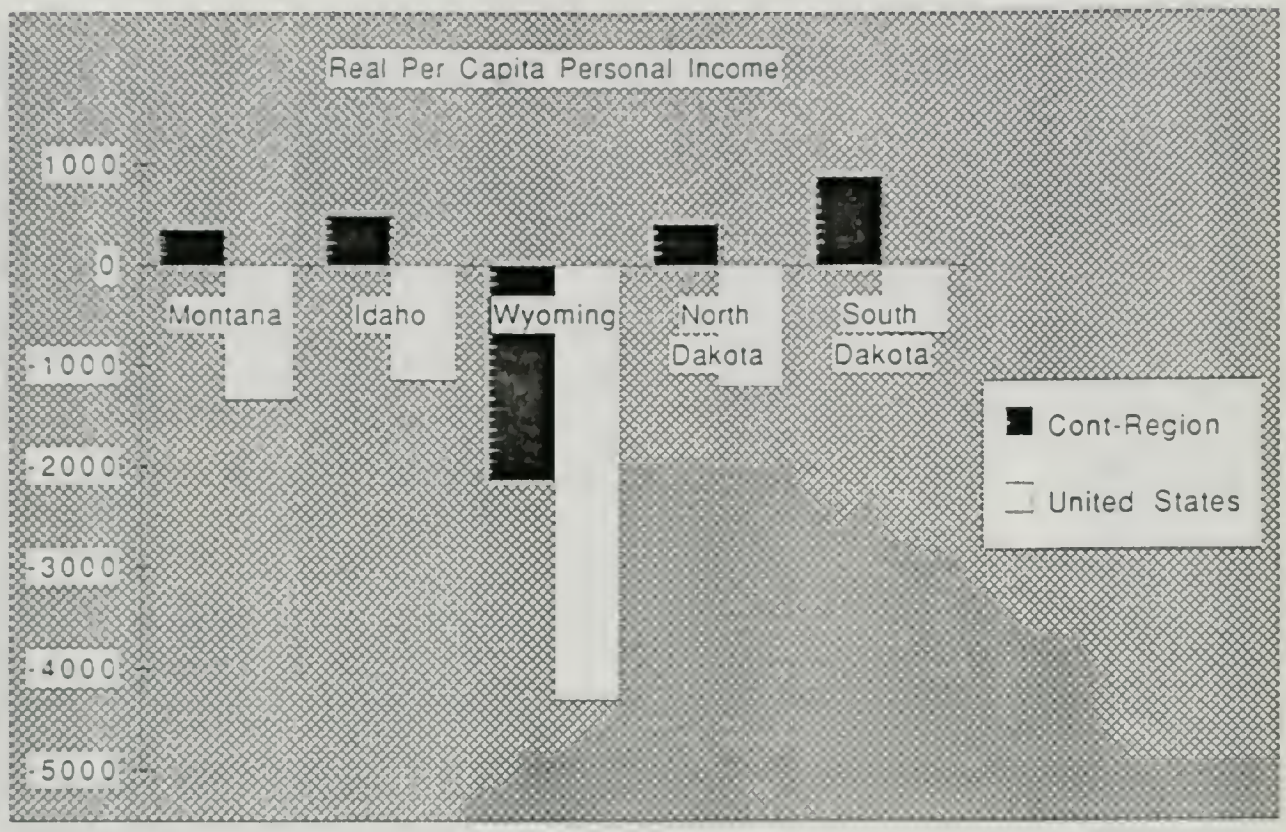
Manufacturing Production Worker Hourly Earnings Growth (1985-1989)

	MONTANA	IDAHO	WYOMING	NORTH DAKOTA	SOUTH DAKOTA
United States	-0.89	-0.14	-0.02	-0.06	0.11
Cont-Region	-0.65	0.07	0.19	0.12	0.27

Chart D portrays growth in manufacturing production worker hourly earnings relative to the contiguous region and the U.S. economy. Montana displays the largest negative gap in growth relative to both the contiguous region and the U.S. economy. Only Wyoming displays positive growth relative to both the contiguous region and the national economy.

CHART E

Gap Analysis: Real Per Capita Personal Income Compared to the Region and to the Nation



Real Per Capita Personal Income Growth (1985-1989)

	MONTANA	IDAHO	WYOMING	NORTH DAKOTA	SOUTH DAKOTA
United States	100.85	7.40	-1341.36	-1208.86	-216.29
Cont-Region	608.78	506.22	-749.55	-657.76	292.31

Chart E depicts growth of real per-capita personal income relative to the contiguous region and the U.S. economy. Montana, Idaho, North Dakota, and South Dakota all display positive growth relative to the contiguous region. None of the states display positive growth when compared to the U.S. economy.

Montana's Statewide and Sub-State Strategic Position

The NASDA economic analysis (Appendix) completed for the state of Montana evaluates both the historical and forecast future performance of the Montana economy. NASDA has utilized several methodologies: location quotient analysis; spatial analysis; gravity analysis; and statewide performance forecasting to evaluate the historical and future performance of Montana's statewide and sub-state economies.

The statewide analysis explains general, broad-based economic growth patterns affecting Montana's overall economy, while the sub-state analysis illustrates the high-growth and low-growth sub-regional economic growth patterns within the broader Montana economy.

The findings of the comprehensive economic analysis of Montana's statewide economy include:

- Montana possesses a regional specialization in mining, transportation, communications, utilities, and retail trade relative to the U.S. economy. These industries represent, in part, Montana's competitive advantage relative to the U.S. economy.

- Mining (-6.2 percent), wood and paper manufacturing (-11.9 percent), railroads (-10.2 percent), and agricultural services (-6.8 percent) are all expected to experience negative economic growth from 1990 to 1994 in real labor income. Employment also is forecast to decline in these industries. Metal and non-metallic minerals mining are expected to reverse declining trends starting in 1991, but by 1994 all mining activity will remain below 1990 levels.

- The service-producing sector will continue to experience economic growth from 1990 to 1994 in both real labor income (9.7 percent) and employment (7.8 percent).

- Farming activity is expected to experience economic growth from 1990 to 1994 in real labor income (24.0 percent).

- Tourism expenditures should increase moderately between 1990 and 1994.

- Federal government activity is a basic industry for the Montana economy. However, federal government activity can be expected to play a diminished role in Montana's future.

- Statewide real labor income (5.7 percent) and employment (3.8 percent) will both increase from 1990 to 1994 as a result of growth in farming and the service-producing industries.

- Statewide real personal income--which includes such categories as interest, rents, and profits--will decrease 3.0 percent from 1990 to 1994.

- Future employment opportunities will continue to be generated primarily by service-producing activities, although farming also will grow in the short term. Mining and manufacturing will generally continue to provide fewer employment opportunities. From a real **labor income** perspective, Montana will experience real economic growth. However, given the projected decline in real **personal income** (including income such as rents and transfers), overall statewide economic growth, adjusted for inflation, will be negative.

From a sub-regional perspective, Montana's economy is divided into twelve Labor Force Areas (LFAs) and two Metropolitan Statistical Areas (MSAs) as indicated on the map on the following page. Findings for Montana's sub-regions are as follows:

- All twelve Labor Force Areas and the two Metropolitan Statistical Areas are forecast to experience economic growth in both total employment and real labor income from 1990 to 1994.

- The uniform basic industries for the eastern half of the state are agriculture and mining--primarily coal, oil and gas extraction, and non-metallic minerals. Fifty percent of all mining employment occurs in the eastern half of the state. The western half of the state engages in mining of metals, non-metals, and fossil fuels, and mining constitutes a significant industry for the Shelby and Anaconda-Butte LFAs.

- Fifty percent of manufacturing employment statewide takes place in the Kalispell and Missoula LFAs. The basic manufacturing industry for these two LFAs is wood products.

- The wood-products industry is Montana's largest manufacturing employer. Food processing and printing and publishing are also important manufacturing industries which are more evenly distributed throughout the state's sub-regions.

- The Billings and Great Falls MSAs will lead the state in growth. These sub-regions have a specialization in service-producing basic industries (retail, wholesale, financial services, and general services). Billings' real labor income and employment will increase by 6.1 percent and 4.7 percent, respectively. Great Falls' real labor income and employment will increase by 6.2 percent and 4.8 percent, respectively, during the 1990 to 1994 forecast period.

- The Hardin-Red Lodge, Lewistown, Glendive, Miles City, and Shelby LFAs will experience the lowest growth rates in the state. These sub-regions have a significant specialization in mining. Hardin-Red Lodge, Lewistown, Miles City, and Glendive LFAs have the highest levels of mining specialization in the state.

- Six of the seven major Montana trade centers--Yellowstone, Cascade, Missoula, Gallatin, Flathead, Lewis and Clark, and Silver Bow counties--are located in the western half of the state geographically (although Cascade is

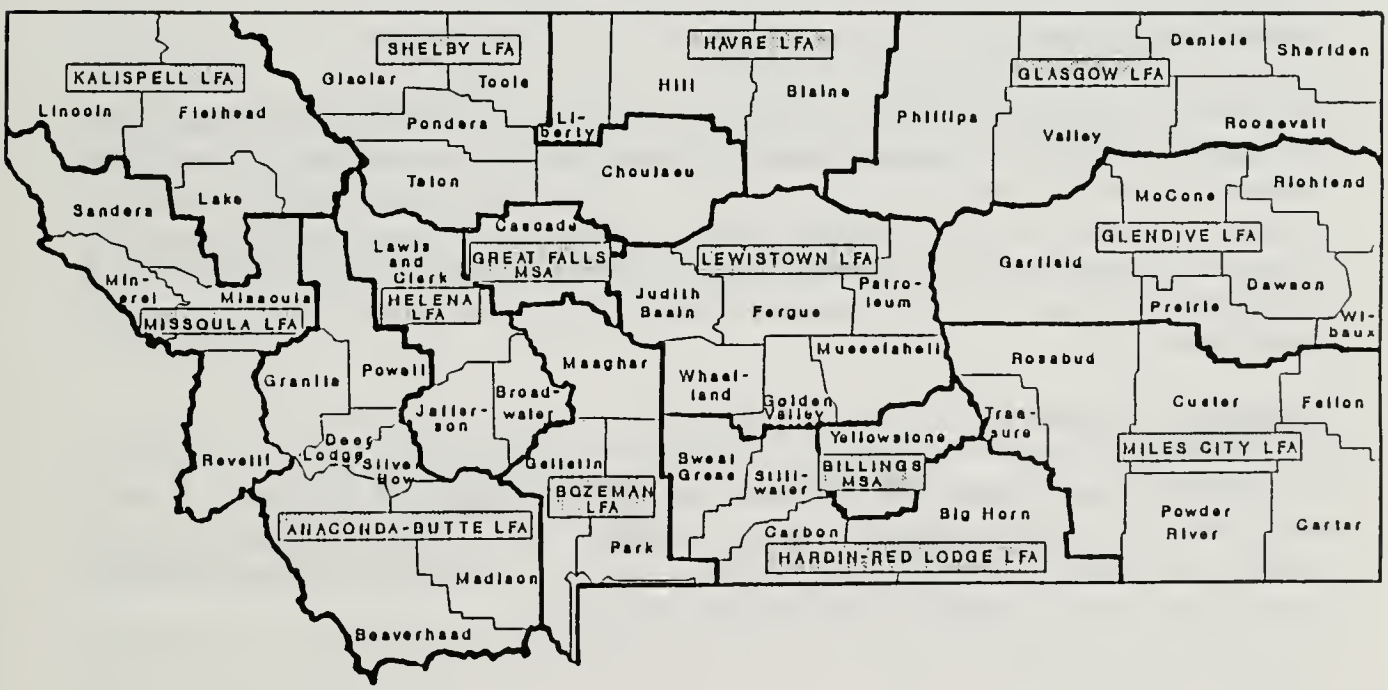
often considered socially and economically a part of the East). Accordingly, those sub-regions located in the eastern half of the state which are not in close proximity to the six major trade centers are generally forecast to experience lower growth rates than the sub-regions in the western half of the state.

- In terms of spatial relationships, the northeast and southeast quadrants of the state are generally expected to have limited trade linkages with the major trade centers, a factor which should contribute to lower economic growth.

- Given the structural economic changes occurring as a result of national and global factors, each of the fourteen sub-regions is forecast to experience increases in total employment, but the employment mix will continue to favor more service-producing jobs and less mining, agricultural services, and manufacturing jobs. Employment opportunities will continue to shift from the goods-producing sector to the service-producing sector.

In sum, each of Montana's sub-regional economies should experience growth in both real labor income and employment from 1990 to 1994. A shift in employment opportunities will favor service-producing sector jobs. Those sub-regions specializing in mining activities and not in close proximity to the major trade centers will generally experience lower growth. Overall, Montana's economic growth will continue to be negative from 1990 to 1994, as real personal income is expected to decrease by 3 percent.

Montana's Labor Force Areas



State Initiatives

Many state government agencies work to improve business development and job opportunities for Montana's citizens, undertaking specific development-related initiatives and projects.

Montana Department of Agriculture

The Montana Department of Agriculture provides financing, technical assistance, information, and counseling to encourage the development of value-added agricultural products and agri-businesses.

The **Growth Through Agriculture Program** utilizes coal severance tax funds to make seed-capital loans for new and innovative technologies and products in agriculture. Loans are issued for a five-year term at a 9 percent interest rate, with a maximum loan size of $50,000. Participants in the program must provide a dollar-for-dollar match. Loans finance operating capital and equipment and are often utilized in cooperation with the Montana Science and Technology Alliance seed-capital program.

The **Market Development Grants Program** offers grants to private- and public-sector organizations to create or leverage new opportunities to implement technologies or products and develop new markets that will benefit the public at large. The program has moved away from direct grants to reimbursable loans. The size of the assistance ranges from $5,000 to $20,000, depending upon the merits of the project, the number of organizations involved, and the amount of money leveraged.

Montana Department of Commerce

The Montana Department of Commerce performs a variety of functions, including business and tourism promotion; business finance; business, economic and census information services; community development and finance; and business licensing and regulation. To streamline service, the department operates through four major policy groups--the Economic Development Policy Group, the Tourism Policy Group, the Public Service and Safety Policy Group, and the Administration Policy Group, each headed by a chief administrator.

I. DIVISION ACTIVITY

BDD funds community-level business loans through the Community Development Block Grant and Microbusiness Finance programs; publicizes and represents Montana to firms planning relocation or expansion; and provides economic, demographic and business data through the Office of Research and Information Services.

II. INDIVIDUAL PROGRAMS

A. Small Business Development Center Programs

The Small Business Development Center is the outreach are of the Division, providing training and consulting to small businesses at local offices throughout Montana. The SBDC network currently has full service subcenters in Great Falls and Billings. Each subcenter operates as a partnership between the Montana SBDC and local development organizations. Montana-owned business can get information and consulting in the following program areas:

1. Finance

SBDC finance officers consult with and train businesses in financial planning, loan packaging, public and private capital sources, and business tax incentives. The program also works with communities, businesses and private lenders to encourage the use of various public sector financing programs.

2. Marketing

The marketing program works with businesses to expand outlets for products manufactured or processed in Montana. Products of Montana manufacturers are represented at selected trade shows both in the United States and foreign countries. The program also publishes theMontana Manufacturers Directory and the Consumer Products Directory, as well as making the "Made in Montana" logo available to Montana manufacturers.

3. Business Information System

The Montana SBDC's Business Information System (BIS) is an electronic bulletin board, accessible free of charge to anyone with a personal computer, communications software and modem. The BIS posts a variety of economic, demographic and business data, including state government bid solicitations, export trade opportunity leads from the U.S. Department of Commerce, and population, income and employment statistics for Montana cities and counties.

4. Licensing Information and Business Advocacy

a. Licensing

The office distributes information on state licensing requirements of starting and operating a business, and provides assistance to businesses applying for licenses and permits. The office also serves as an advocate for small businesses in their dealings with government.

b. Montana Ambassadors

The Montana Ambassadors, a privately-funded membership association, are staffed by this office. The Ambassadors, made up of approximately 200 business and university leaders from throughout the state, assist in business recruitment, help to market Montana products outside the state, and host foreign visitors and trade delegations.

B. International Trade Office

The International Trade Office works to increase the foreign sales of Montana companies. In addition, the international trade staff promotes tourism and pursues inward foreign investment opportunities. One-stop technical assistance to businesses wishing to enter foreign markets is available. The office conducts special training programs throughout the year to prepare more firms for export activity, The Division maintains a product showroom in the Taipei World Trade Center on Taiwan and trade offices in Tokyo and Kumamoto, Japan.

C. Business Location and Loan Administration

1. Location and Business Recruitment

The Business Location program publicizes and represents Montana to firms planning relocation or expansion; initiates and develops relations with target industries and individual firms, and prepares and presents location data in response to inquiries received by the department. The location office also works closely with local development organizations in their efforts to recruit new firms to their communities.

2. Community Development Block Grants (CDBG)

The Division administers Community Development Block Grants awards for economic development projects. This federally-funded competitive grant program awards approximately $1.3 million annually to Montana cities, towns and counties. Local governments then lend the money to private business projects. Applications are made to the division by the local government sponsoring the projects. Projects are selected by considering feasibility, economic impact and job creation for low to moderate income persons. This office also administers a state-level EDA funded revolving loan program that operates on principles similar to CDBG loans.

3. Microbusiness Finance Programs

Initiated by the 1991 Legislature, the Microbusiness Finance Program utilizes $3.25 million from the coal tax trust fund to capitalize a network of 10 to 12 regional revolving loan funds serving the entire state. These regional funds specialize in providing training in business planning and management, as well as small loans (up to $20,000) to "microbusiness" -- companies with fewer than 10 employees and gross revenues of less than $500,000 per year. The program is currently in its start-up phase, with 5 regional funds established as of August 1992.

D. Office of Research & Information Services (ORIS) and Census & Economic Information Center (CEIC)

The Office of Research & Information Services (ORIS) and the Census & Economic Information Center (CEIC) provide a central and comprehensive economic, demographic and business data and information resource that is available to individuals as well as public and private organizations.

ORIS/CEIC maintains documents and computer-retrievable files that address the economy of the state (historical as well as current) including special papers, annual, quarterly and monthly statistical reports from federal and other Montana state agencies.

As the lead agency in the Montana State Data Center program, CEIC is the state agency designated to receive, reproduce and distribute maps and data from the 1990 Census.

The **Montana Promotion Division**--Travel Montana--promotes the state domestically and internationally as a year-round vacation destination and a location for filming motion pictures and TV commercials. Through its programs, the division strives to increase the number and length of visits by nonresidents, thus generating revenues and jobs for Montana. As part of this effort, tourism staff work closely with other states and provinces and the private sector to increase the scope of Montana's private tourism-related activities. Promotional efforts are guided by a fifteen-member, legislatively-mandated Tourism Advisory Council (TAC), whose members are appointed by the Governor. TAC was created in July 1987 to advise the Governor on matters on travel and tourism; set policies and guide the efforts of Travel Montana; oversee distribution of funds and set guidelines for nonprofit regional tourism corporations and convention and visitors bureaus; prescribe allowable administrative expenses; and direct the university system's travel research and approve all projects.

There are nine divisions within the **Public Service and Safety Policy Group**, as follows:

- Aeronautics Division
- Office of Consumer Affairs
- Financial Division
- Board of Horse Racing
- Coordinator of Indian Affairs
- Local Government Assistance Division
- Montana Lottery
- Public Safety Division
- Transportation Division

The **Management Services Division** provides internal support to all agency programs including budgeting, accounting, purchasing, contracting, personnel administration, payroll, training, and the analysis, development, maintenance, and supervision of department data-processing systems and hardware.

Montana Department of Natural Resources and Conservation

The Montana Department of Natural Resources and Conservation has initiated a regional approach to rural development by organizing and involving local conservation districts, the Soil Conservation Service, and the Montana Association of Conservation Districts. Because most of Montana's rural communities cannot afford a professional economic development coordinator, DNRC has developed a program to initiate community-led rural development efforts through **Resource Conservation and Development Areas**.

The regional approach involves several elements for success. The efforts must be led by local people who recognize that economic problems exist in their areas and are committed to achieving results. The regional efforts must contain counties that suffer from similar problems and that are geographically situated so they can work toward common goals. Intensive training, lasting three weekends, fosters participant interaction in the development of working projects, long-term plans, and development of an organizational foundation for growth. An official structure is required to formalize the group's actions, with a full-time coordinator hired.

To date, the department has supported the development of multi-county areas in six regions of Montana. Twenty-two counties joined together to form two new Resource Conservation and Development areas. The Central Montana RC&D includes Judith Basin, Fergus, Musselshell, Petroleum, Golden Valley, and Wheatland counties. The other new area is the Eastern Plains RC&D, which includes Carter, Powder River, Rosebud, Treasure, Custer, Fallon, Prairie, Wibaux, Garfield, McCone, Dawson, Richland, Roosevelt, Sheridan, Daniels, and Valley counties.

The Headwaters RC&D, including Beaverhead, Madison, Silver Bow, Jefferson, Broadwater, Deer Lodge, Granite, and Powell counties, is very active in the effort. Beartooth RC&D serves Carbon, Stillwater, and Sweet Grass, and the Bitterroot RC&D serves Mineral, Missoula, and Ravalli counties. Groups are working in the northwest region to establish an RC&D to serve Lake, Lincoln, and Sanders counties.

It is anticipated that this initiative will give local people opportunities to help themselves, their communities, and the state by training them to seek out the vast amounts of private, state, local, and federal economic development assistance available to them. In addition, it enables the development of a larger critical mass needed for greater success in achieving mutual economic objectives.

Montana Department of Social and Rehabilitative Services

Using federal and state JOBS funding, the Montana Department of Social and Rehabilitation Services offers three programs to enhance job development and economic development. The **Capital Opportunities Program** provides technical assistance and capital for economically deprived people who are starting their own businesses. Lynn Robson in Bozeman has oversight for this program.

Jobs for Montana Graduates serves high-school students who are at risk to drop out of high school. The program encourages the youths to stay in school and guides them toward employment. The project director is Lorelee Robinson, who is located in Helena.

The **Non-traditional Employment for Women** project provides female JOBS participants with brief training and employment placement on construction projects in Montana. Laura Rose is director of the project.

Montana Department of Transportation

In addition to its transportation-related assistance programs through its Rail and Transit Division and Aeronautics Division, the Montana Department of Transportation has a unique opportunity to obtain new sources of funding to accomplish Montana's development goals. The federal **Intermodal Surface Transportation Efficiency Act of 1991** will allocate $1,068,642 to Montana during the 1992-1997 fiscal years for transportation planning projects involving public lands highways, Indian roads, national trails, and transportation enhancements. The funds will enable Montana to undertake statewide transportation planning; obtain rural technical assistance; plan, design, and develop state scenic-byway programs; and complete transportation enhancements (such as bike facilities, scenic easements, historic preservation, landscaping, preservation and enhancement of abandoned railway corridors, etc.) on a project or in areas to be served by a project.

Through the **Federal Lands Highway Program,** planning funds are available for tourism, recreational travel, national trails, and the U.S. Forest Service, Bureau of Land Management, and Bureau of Indian Affairs scenic-route programs. Enhancements such as visitor centers, scenic easements, and pedestrian walkways and bike facilities may be funded. Over six years, the Western U.S. region will receive $544 million for public lands highways and $947 million for Indian reservation roads. Another $340 million is available under national competition for public lands highways, with preference given to states containing at least 3 percent of the total public lands in the nation. Park roads are funded at $486 million.

The **Disadvantaged Business Enterprise (DBE) program** enables disadvantaged (minority) and women owned business enterprises to compete more effectively in all areas of construction. An advantage of being certified as a transportation related DBE firm is being eligible for technical, one-on-one assistance to qualifying DBE firms. The Civil Rights Bureau also publishes a semi-annual newsletter which provides information on an array of subjects including but not limited to: DBE; Labor; and EEO Contract Compliance; sexual harassment, American with Disabilities Act; bid letting dates; other civil rights and business information.

As a specific program initiative to receive funding through the Intermodal Transportation Program, the Center for the New West is proposing to undertake research and analysis of data to establish a **Rocky Mountain Trade Corridor.** In concept, this is an intermodal plan to establish a preferred-services corridor from Alberta, Canada south through Montana, connecting Salt Lake City and Denver to Mexico. The study intends to recommend ways to improve the "super transportation grid" of the northwestern states, improve Montana's rail links to promote increased travel by rail, develop key transportation infrastructure to change present business logistics, and resurrect the infrastructure plan for the Pan American Highway.

Programmatic Review of Montana and Neighboring States

In addition to the review of the Montana Department of Commerce development programs, NASDA contacted the economic development agencies in the four neighboring states of Idaho, South Dakota, North Dakota, and Wyoming to update and understand the economic development programs, tax policies, permits, regulations, and licensing standards being used to promote job creation and business retention. The findings are summarized and compared in the Summary Matrix - A Comparison of State Initiatives and described in further detail on a state-by-state basis as contained in the Appendix.

Table I
BUSINESS FINANCING PROGRAMS IN NEIGHBORING STATES

	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WYOMING
FEDERAL PROGRAMS					
SBA 7A	X	X	X	X	X
SBA 504	X	X	X	X	X
FmHA Business & Industry Loans	X	X	X	X	X
EDA Loans/Grants	X	X	X	X	X
HUD-Community Development Block Grant	X	X	X	X	X
BIA	X	X	X	X	X
JTPA	X	X	X	X	X
STATE PROGRAMS					
Direct State Loans		X	X	X	X
Revolving Loan Funds and Grants					
Construction		X	X	X	X
Working Capital		X	X	X	X
Equipment		X	X	X	X
Land Reuse					
Energy Conservation					X
Facilities Renovation/Reuse					X
Microbusiness		X	X	X	
Agribusiness		X	X	X	
Value-added		X	X	X	X
Industrial Park Roads				X	
Technology Funds					
Seed/Venture Grants & Loans		X	X		
Product Development					X
Commercialization		X	X		X
University Research Centers		X	X	X	X
Venture Capital Funds		X	X		
Linked Deposit Programs		X			X
Loan Guarantees		X		X	X
Bank Participations		X	X		
Secondary Market Purchases		X			
Industrial Dev. Revenue Bonds (IRB)	X	X	X	X	X
Industrial Dev. Bond Guarantees			X		
General Obligation Bonds (GO)	X		X		
Statewide Authorities		X		X	
Other					
Tax Increment Financing	X	X		X	
Private Development Credit Corp.					X
Small Business Investment Corp. (SBIC)		X			

TABLE II
TAXES OF NEIGHBORING STATES

	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WYOMING
Travel & Convention Hotel/Motel	X				
Hotel/Motel Room	X	X			
Income					
Corporate Net Earnings	X		X		X
Corporate License		X			
Personal	X	X	X		
Sales/Use	X		X	X	X
Real Property	X	X		X	X
Personal Property	X				
Business Property (Mach,Equip,Furn)	X	X			
Business Inventory					
Business Privilege			X		
Severance	X	X	X		
Fuel [1]	X	X		X	
Special Fuels	X		X		
Electricity	X				
Other					
Tobacco & Cigarette	X	X	X		
Wholesale Liquor			X		
Beer & Wine	X				
Illegal Drug Stamp	X				
Mine License [2]	X	X			
Metal mines [2]	X	X			
Gaming [3]	X	X	X		
Insurance Premium [4]		X	X		

[1] MT - sales tax imposed at time of delivery.

[2] MT - covered by severance taxes.

[3] MT - percent of gross proceeds.

[4] MT - percent of net taxable premiums.

TABLE III
TAX EXEMPTIONS, CREDITS, AND ABATEMENT INCENTIVES OF NEIGHBORING STATES

	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WYOMING
Exemptions on:					
Business inventories	X	X	X		
Livestock	X	X[5]			
Stored property in transit	X	X	X		
Pollution control facilities	X	X			X
Household belongings & clothing	X				
Property licensed motor or recr.vehicles	X				
Property of religious, fraternal & educational facilities	X	X			
Corporate income			X		X
Goods in transit		X	X		X
Industrial machinery & equipment					X
Industrial fuels & raw materials			X		X
Qualified business incubators & industrial parks		X			
Corporate license tax for first time R&D firms		X			
Investments in Small Business Investment Corporations, certified capital companies and domestic international sales corporations					
Tax credits for:					
elderly/disabled persons	X				
job creation			X		
investment			X		
research & development		X	X		
indian industries			X		
sales/leases of enterprises to beginning businesses			X		
fuel conservation		X	X		
property (renewable resource systems)				X	
corporation-license-tax wage credits for new/expanding manufacturers		X			
investments in certified capital company		X			
investments in wind-powered electrical generating equipment		X			
sale of land to beginning farmers		X			
expenditures on organic fertilizers made & used in-state		X			
machinery/equip. for mnfct & process agric.			X		
Tax Abatements/Reductions for:					
local-option property tax assessments		X	X	X	
state property tax assessments		X	X		
natural resource related severance taxes		X	X		

[5] MT - except for swine, livestock less than 24 months of age are exempt.

TABLE IV
NEIGHBORING STATE BUSINESS ASSISTANCE PROGRAMS

	IDAHO	MONTANA	NORTH DAKOTA	SOUTH DAKOTA	WYOMING
TECHNICAL ASSISTANCE					
Business planning	X	X		X	X
Value-added processes			X	X	X
Technology commercialization		X	X		X
Patent searches & assistance	X	X			
SBIR technical assistance		X			
Business retention/expansion	X	X		X	
Producer networking		X			
Marketing	X	X	X	X	X
Trade Show organization/training	X	X	X	X	X
"Made-in State" promotion		X		X	X
Agricultural marketing		X		X	X
Product development/marketing			X		X
Product brokering			X		
Buyer-Seller matching system	X				
Government procurement/contracting	X			X	X
Business licensing info/assistance	X	X		X	X
Small Business Development Centers	X	X	X	X	X
Business legal assistance					
Business tax planning assistance					
Data management	X	X		X	X
Business location/site selection	X	X		X	
Census & economic information	X	X		X	X
Industrial production design/engineering		X			
State/university owned industrial parks		X			
Business Improvement Districts			X	X	
Financial packaging		X	X	X	
EPSCORE assistance					X
INDUSTRIAL TRAINING		X	X	X	
TOURISM PROMOTION					
General Advertising & Promotion	X	X	X	X	X
Convention Promotion	X	X			
Tourism hosting program-community training		X			
Film promotion	X	X			
INTERNATIONAL TRADE	X	X	X	X	X
BUSINESS REPORTS, PERMITS & LICENSES	X	X	X	X	X

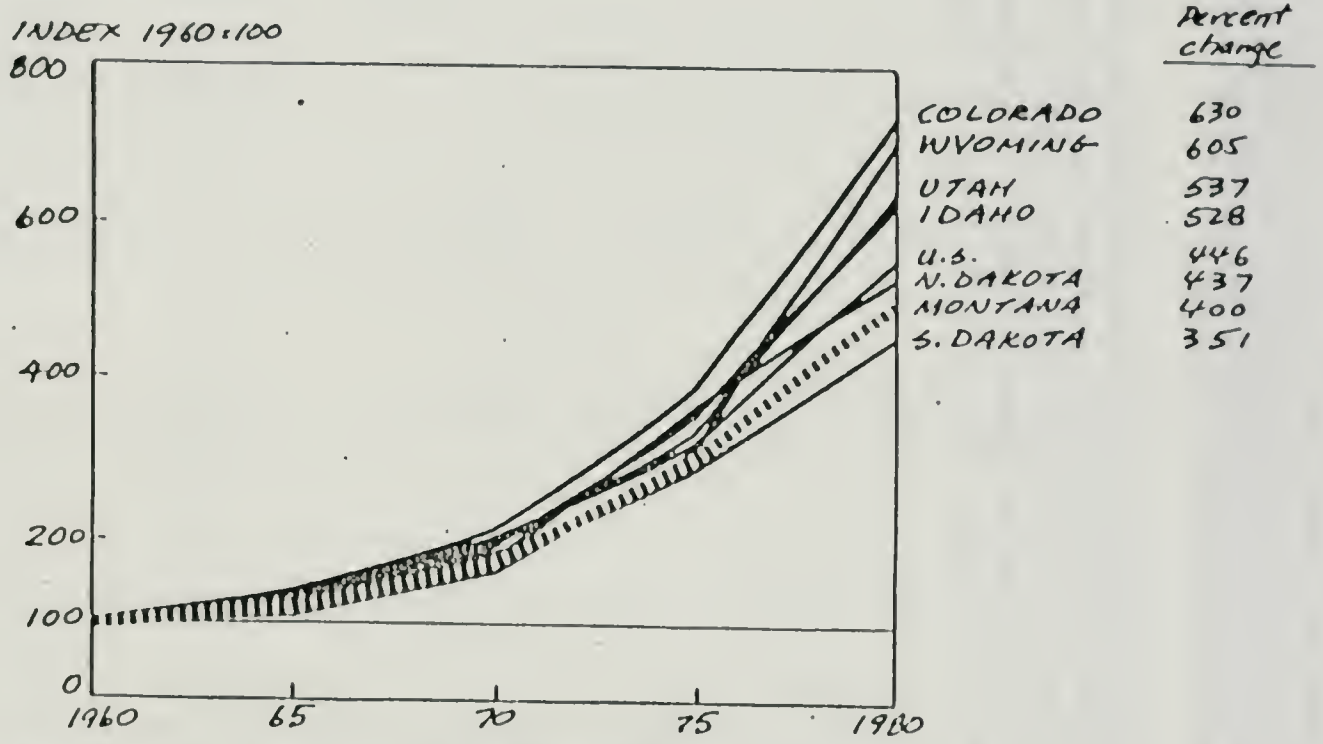
PART 5 HISTORICAL COMPARISONS: 1992 VERSUS 1982

One decade ago, the state of Montana published a major economic analysis and policy review entitled *The Montana Economic Development Project.* That report contained some sixty pages of charts detailing Montana's economic performance; business-climate assets and liabilities; major natural resources; utility, land, labor, and transportation costs; labor availability and value-adding performance; capital availability and formation; tax base and tax balance; economic development budget and programs; program recommendations; and other economic development information.

Following are charts comparing present-day facts and statistics on the above measures with those provided in the 1983 report based upon the current availability and comparisons of the McKinsey & Company, Inc. data which illustrate the record of achievement in implementing that study's recommendations. The McKinsey and NASDA charts are presented on facing pages, where available, for ease of comparison.

Income growth in Montana has lagged behind the nation and most of its neighbors

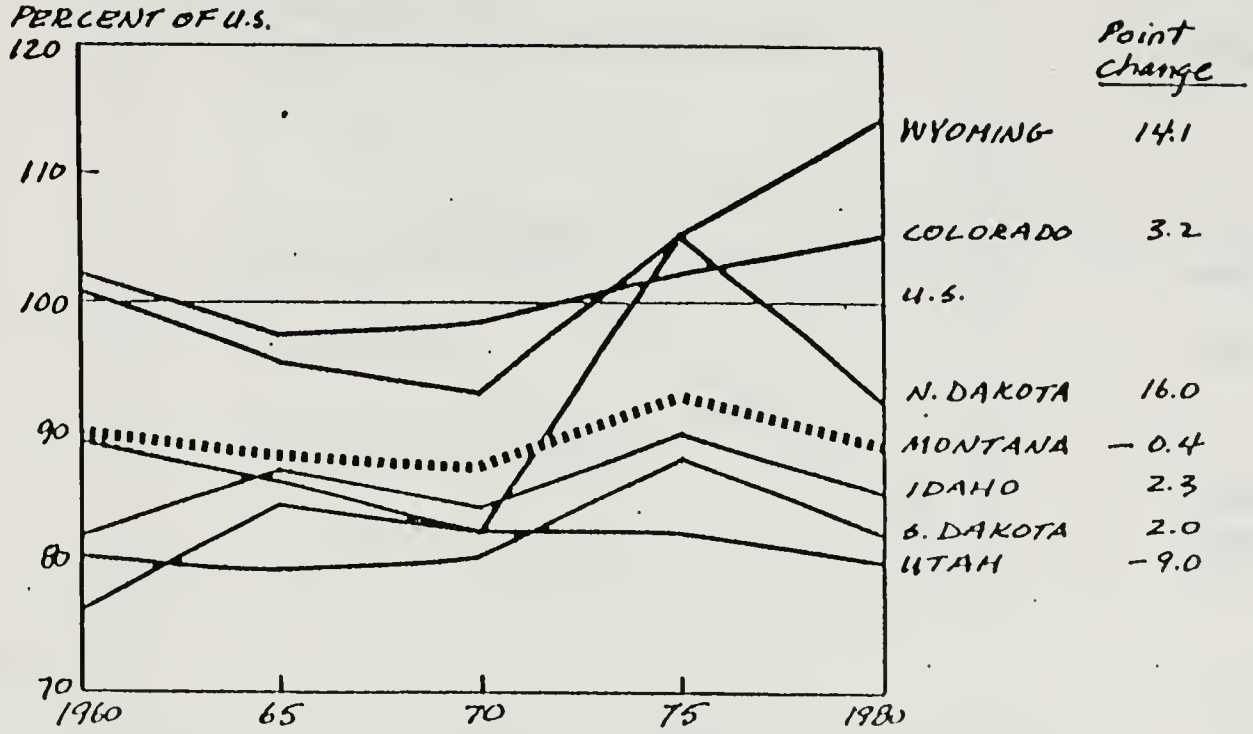
GROWTH IN TOTAL PERSONAL INCOME
1960-80



Source: Bureau of Economic Analysis, U.S. Department of Commerce

On a per capita basis, Montana has about held its own relative to the nation - while most neighboring states improved their positions, some by significant degrees

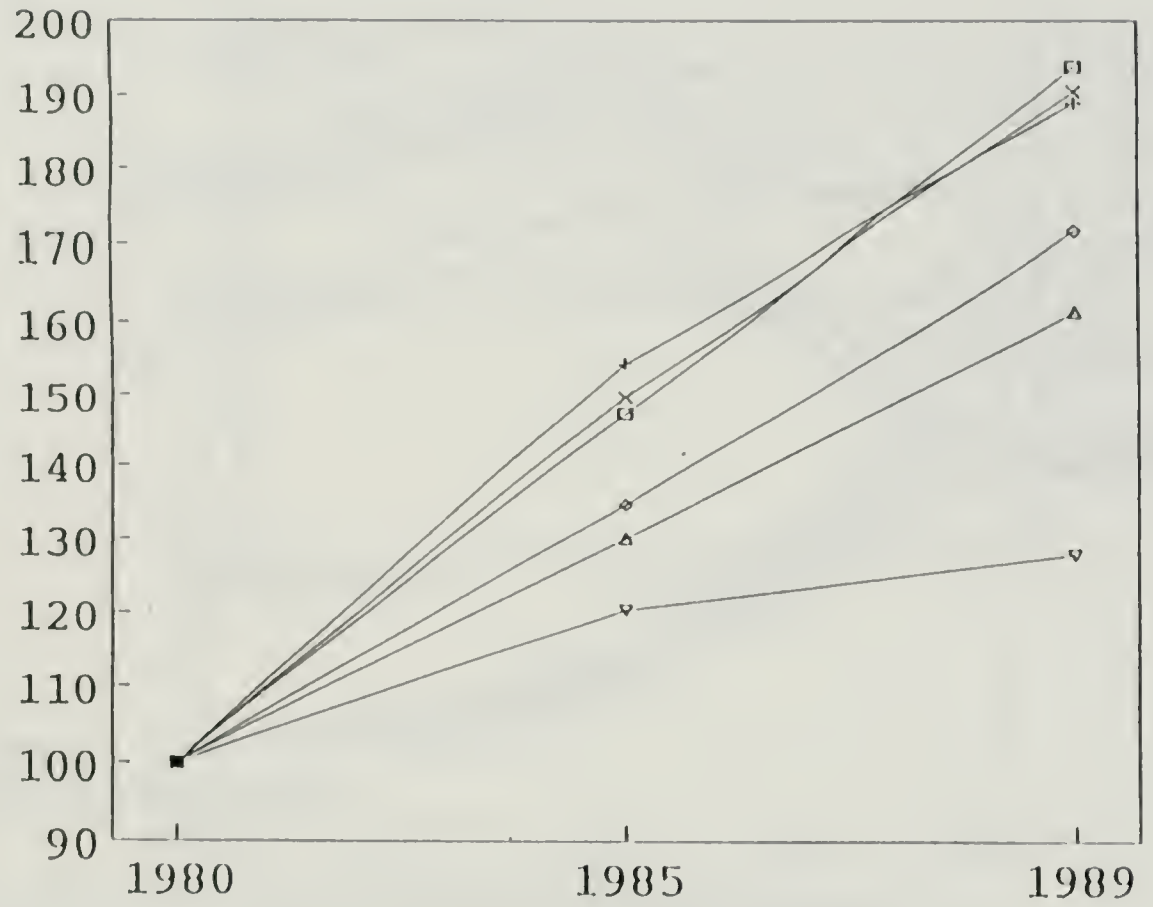
INCOME PER CAPITA
1960-80



Source: Bureau of Economic Analysis, U.S Department of Commerce

Growth in Total Personal Income
1980-1989

Index: 1980=100

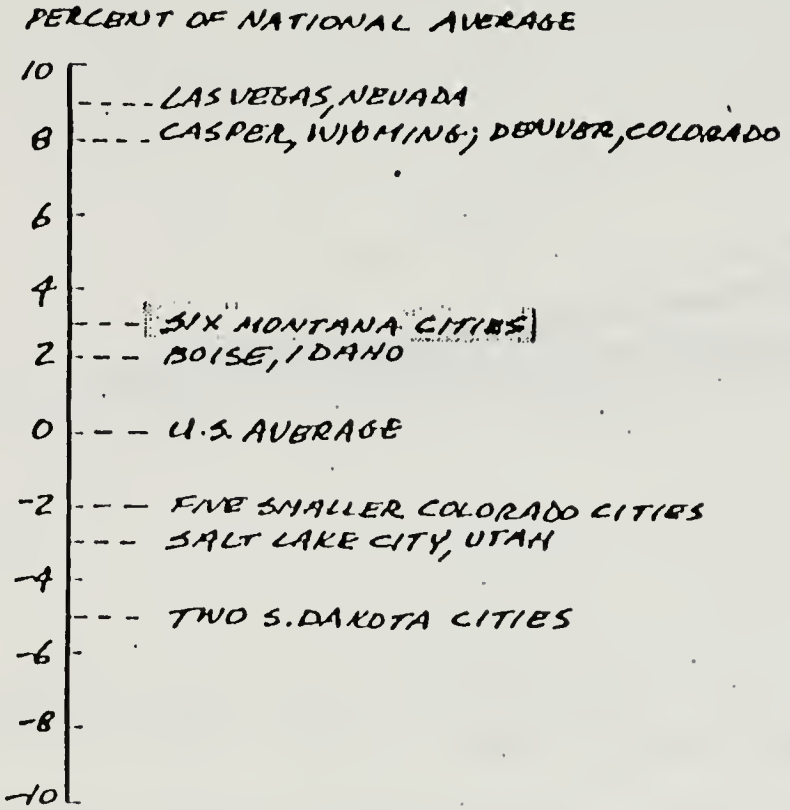


	Percent change
U.S.	94
Utah	91
Colorado	89
Idaho	72
Montana	61
Wyoming	28

Source: Bureau of Economic Analysis

In addition, the cost of living may be a little higher in Montana than in other regions (except for larger cities)

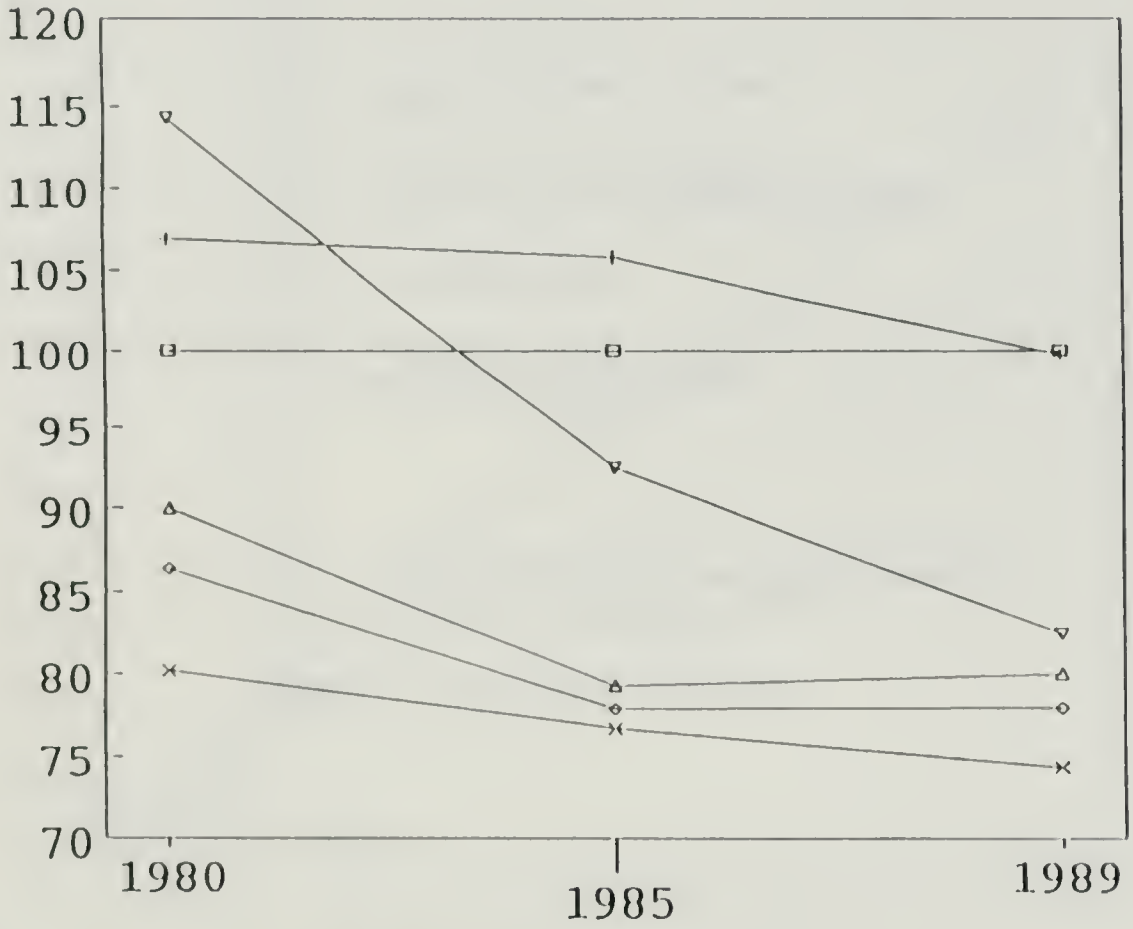
COST OF LIVING
III Q 1981



Source: American Chambers of Commerce Research Association

Income Per Capita
1980-1989

Percent of U.S.



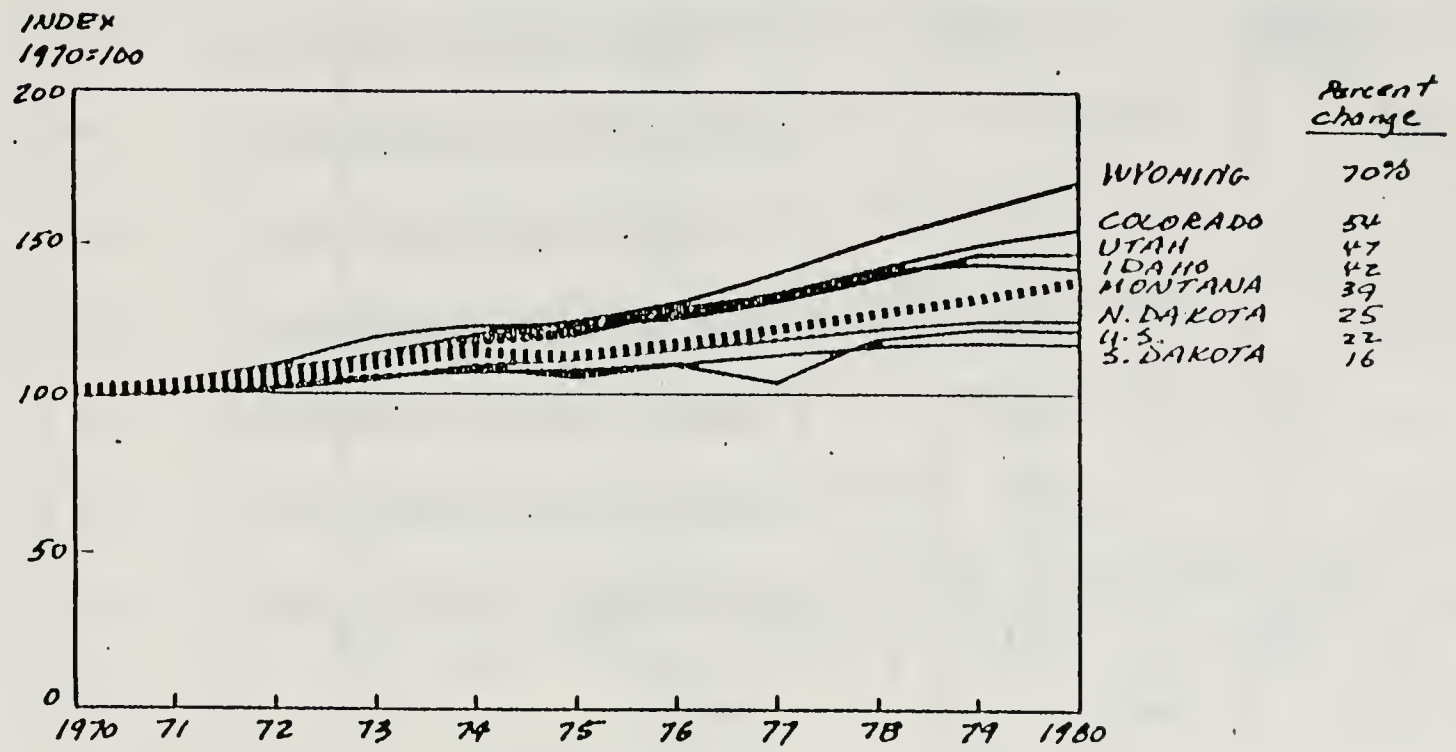
	Point change
Colorado	-7.0
U.S.	
Wyoming	-31.8
Montana	-10.0
Idaho	-8.5
Utah	-5.9

Source: Bureau of Economic Analysis

1970-1980

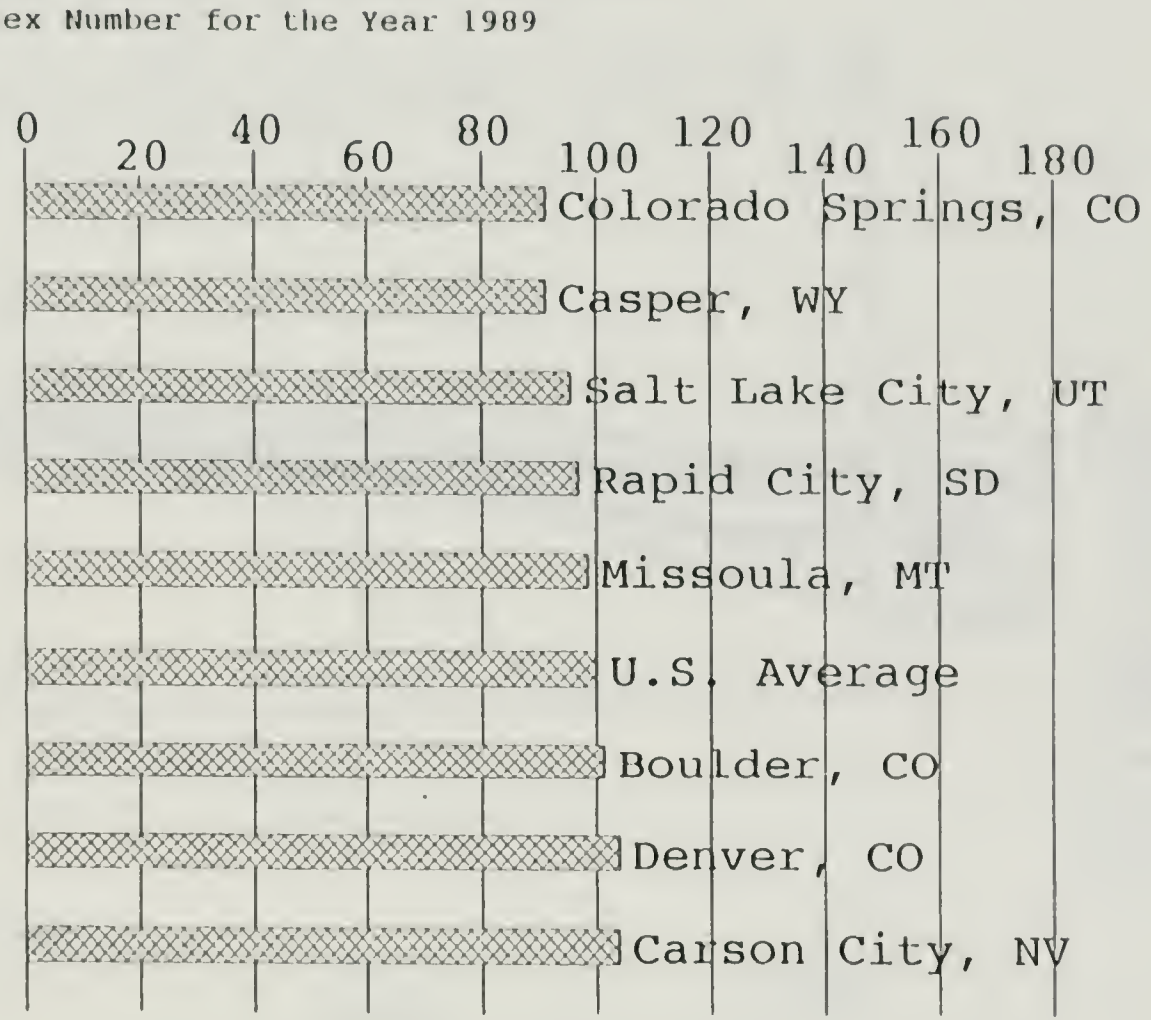
Employment growth in Montana has been lower than in most neighboring states

GROWTH IN EMPLOYMENT
1970-80



Source: Bureau of Economic Analysis, U.S Department of Commerce

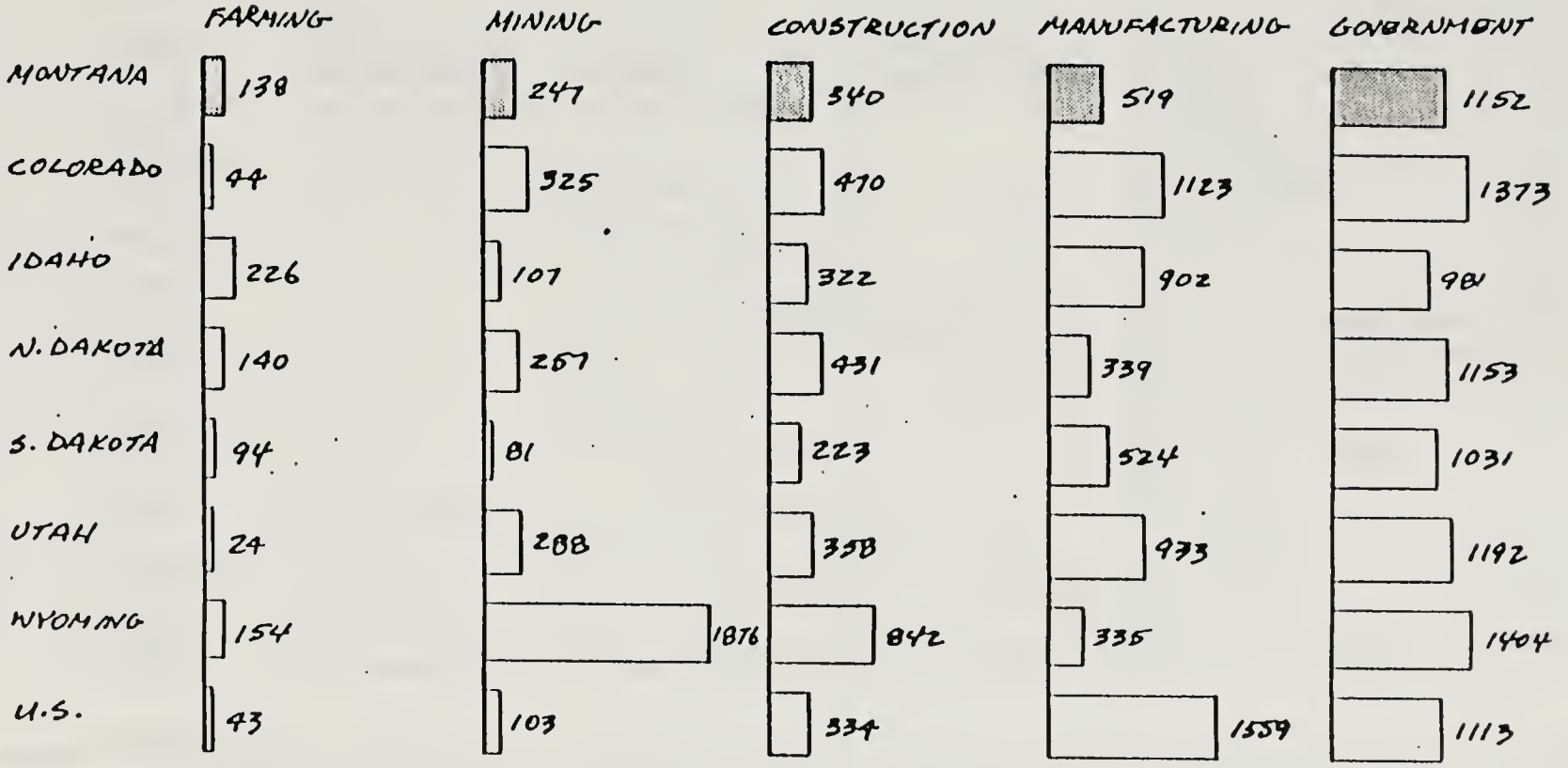
COST OF LIVING



Source: American Chambers of Commerce Research Association

Montana has not diversified its economic base as its neighbors have

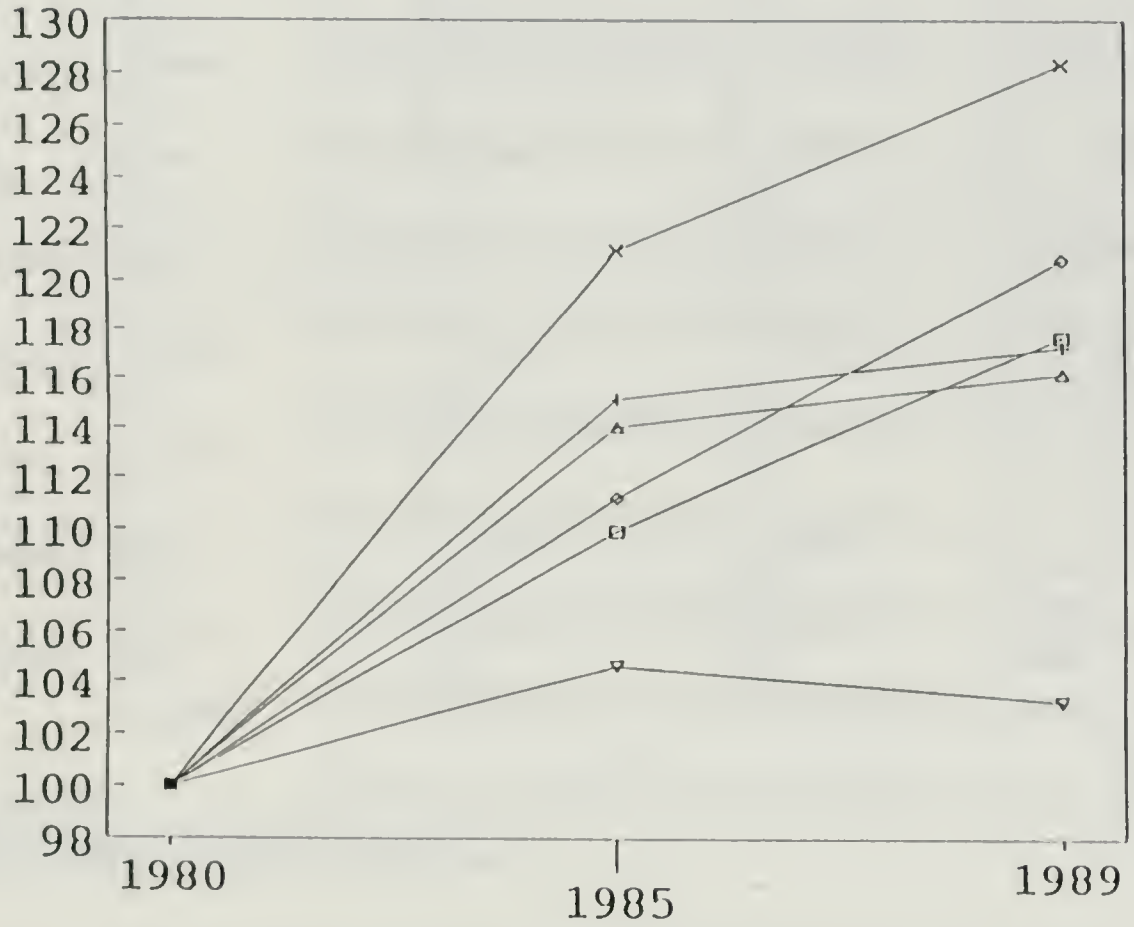
INCOME GENERATED PER STATE RESIDENT
SELECTED CORE INDUSTRIES - 1980
$ PER CAPITA



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Growth in Employment
1980-1989

Index: 1980=100



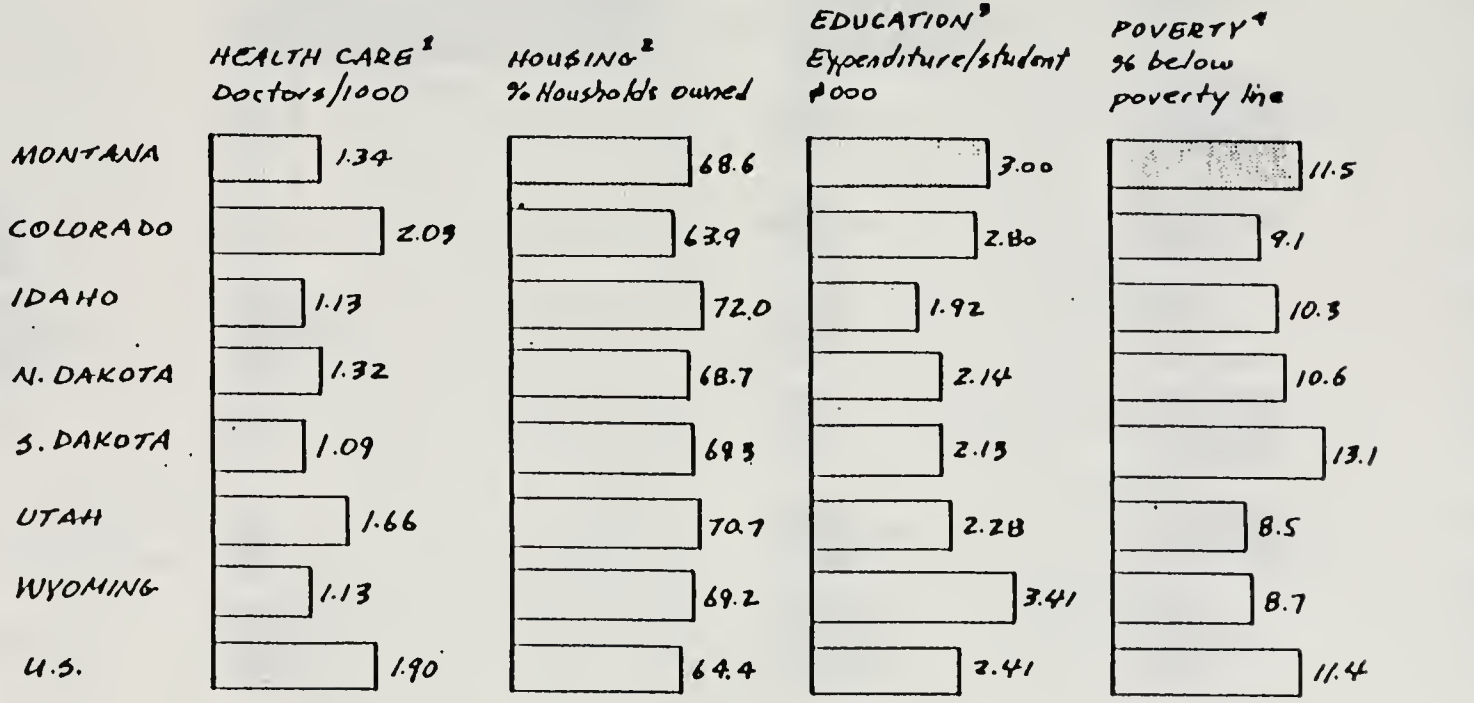
	Percent change
Utah	28
Idaho	21
U.S.	18
Colorado	17
Montana	16
Wyoming	3

Source: Census Bureau; Bureau of Labor Statistics

sources: 1975, 1979, 1980

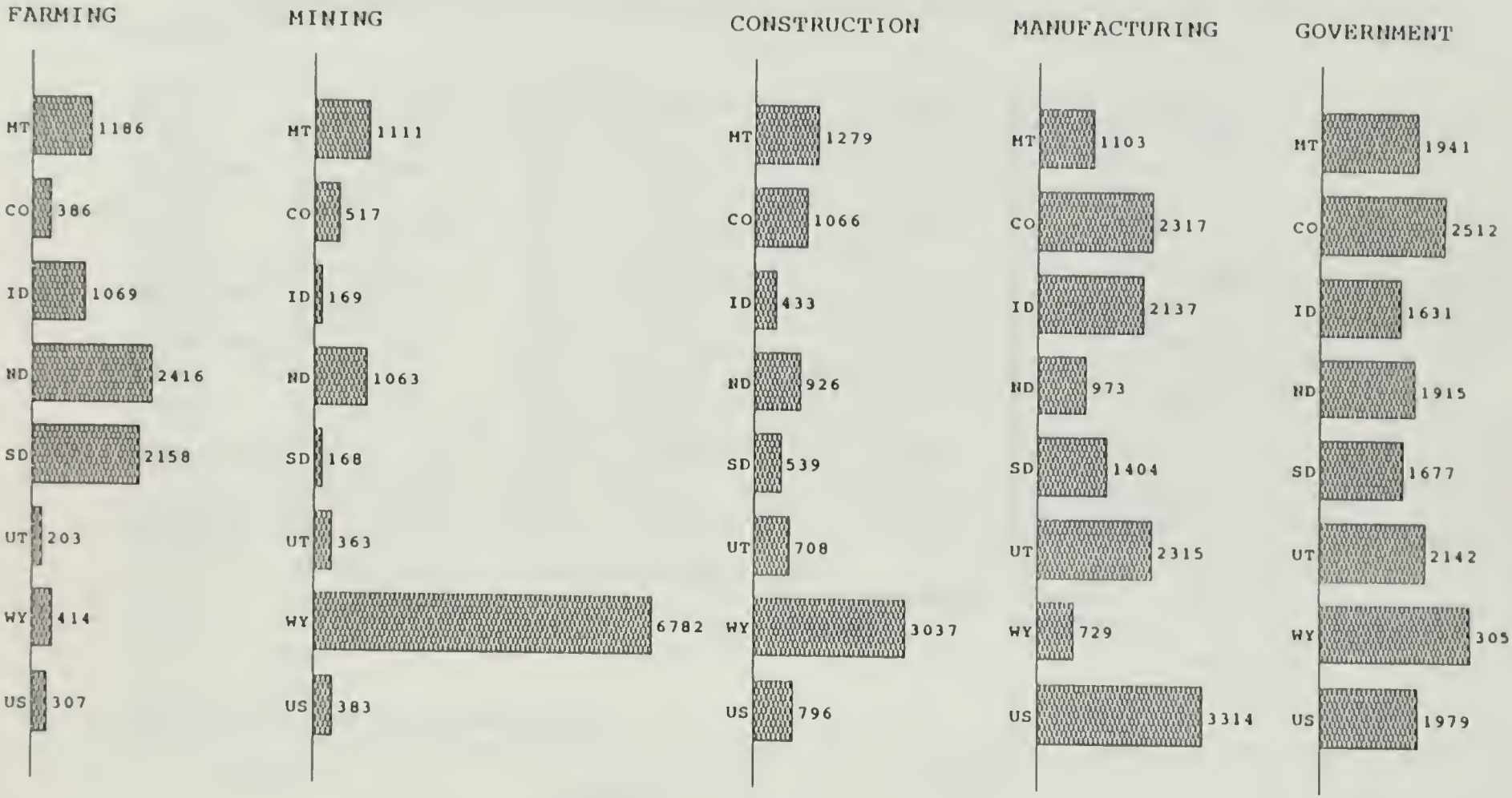
Perhaps most importantly, Montana has a mixed performance relative to its neighbors on some basic – albeit incomplete – indicators of social welfare

INDICATORS OF SOCIAL WELFARE


HEALTH CARE[1] Doctors/1000
HOUSING[2] % Households owned
EDUCATION[3] Expenditure/student $000
POVERTY[4] % below poverty line
MONTANA 1.34 68.6 3.00 11.5
COLORADO 2.09 63.9 2.80 9.1
IDAHO 1.13 72.0 1.92 10.3
N. DAKOTA 1.32 68.7 2.14 10.6
S. DAKOTA 1.09 69.3 2.13 13.1
UTAH 1.66 70.7 2.28 8.5
WYOMING 1.13 69.2 3.41 8.7
U.S. 1.90 64.4 2.41 11.4

SOURCE:
1. Physician Distribution and Medical Licensure in the U.S., 1979, American Medical Association
2. Bureau of the census, 1980 data
3. NCES statistics of Public Elementary and Secondary Schools, 1980
4. Bureau of the Census, 1975 data

GROSS STATE PRODUCT PER RESIDENT
Selected Core Industries, 1986
Dollars per capita

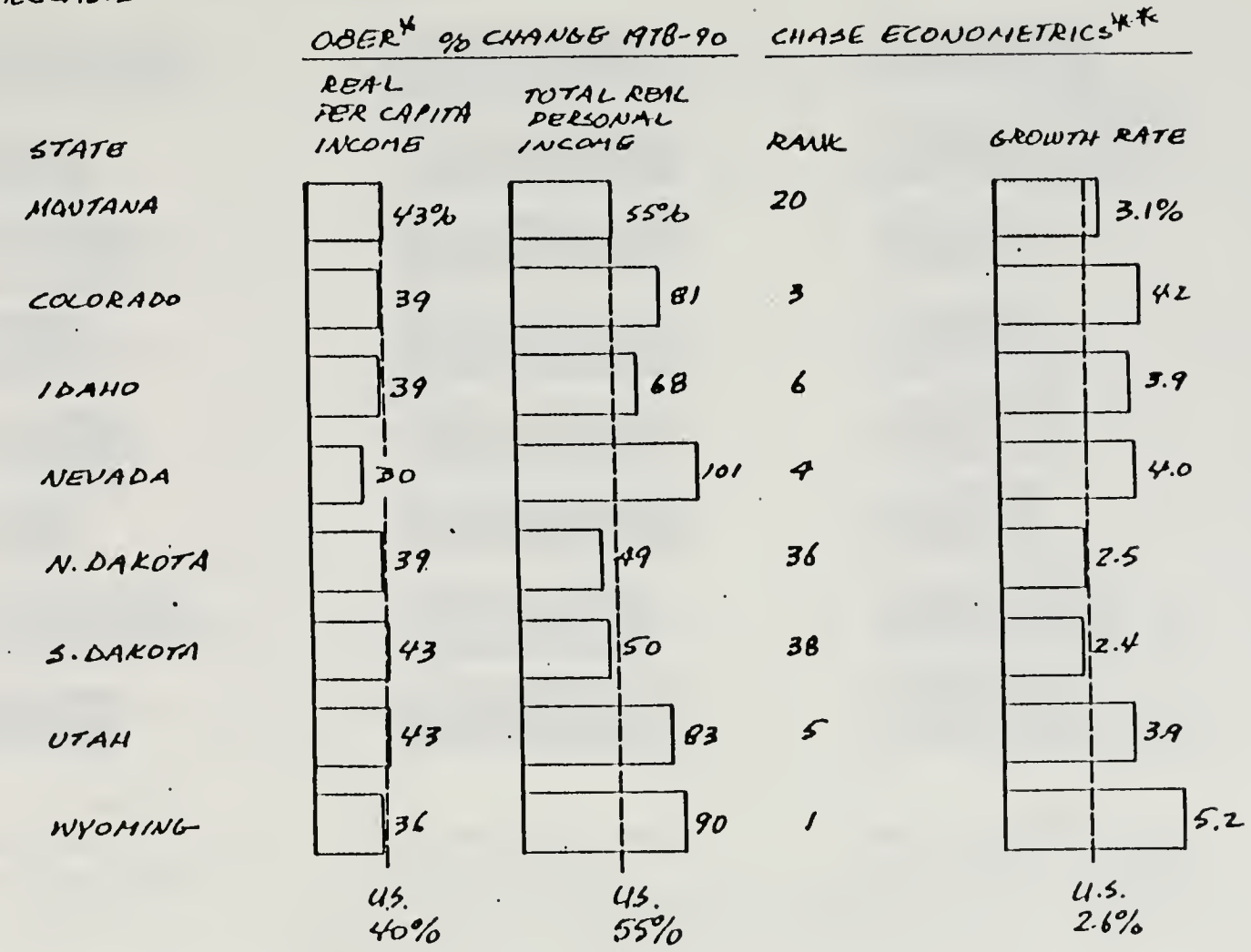


Source: Almanac of the 50 States; Census Bureau

** based on growth in real personal income, 1978-1988

Independent observers do not believe the fundamental, relative trends will change - Montana's prospects for economic development are below its neighbors.

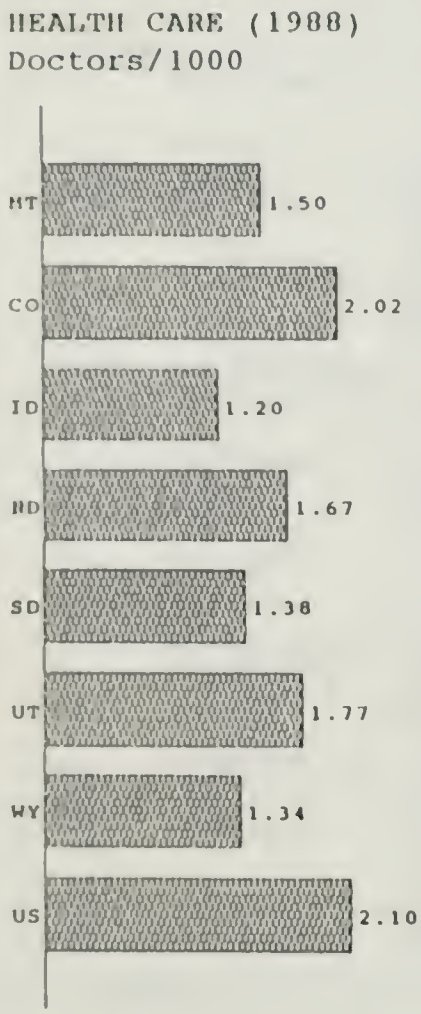
FORECASTS OF FUTURE GROWTH

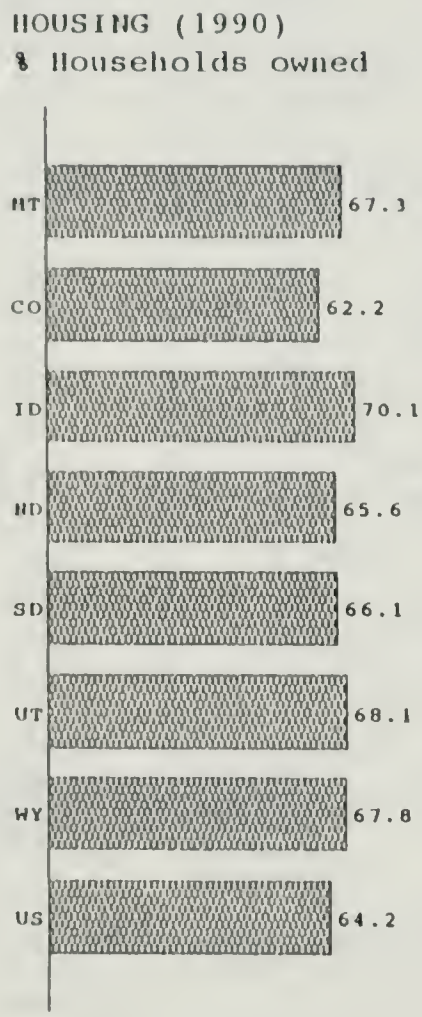


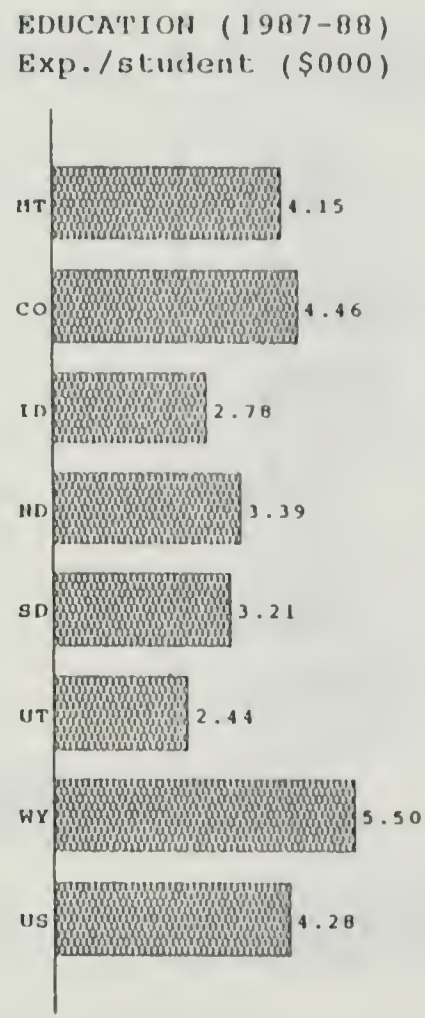
* U.S. Department of Commerce, Bureau of Economic Analysis, July 1981

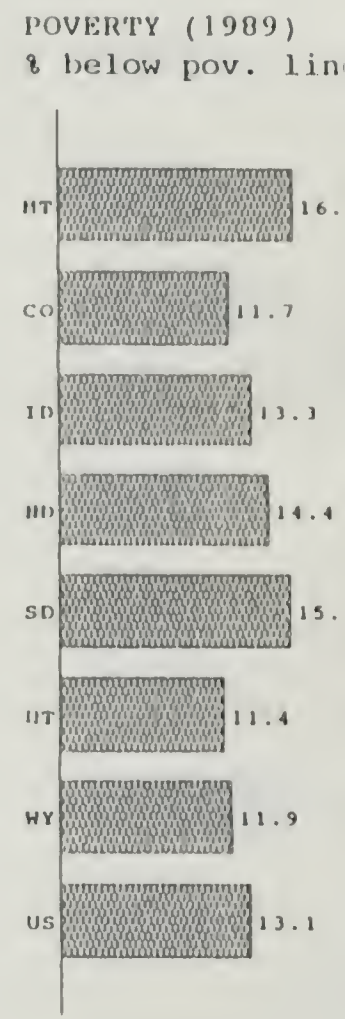
** Chase Econometrics, 1980, based on growth in real personal income, 1978-88

Indicators of Social Welfare









Source: Census Bureau

Third-party observers of various aspects of economic development generally do not view Montana as being as hospitable as its neighbors

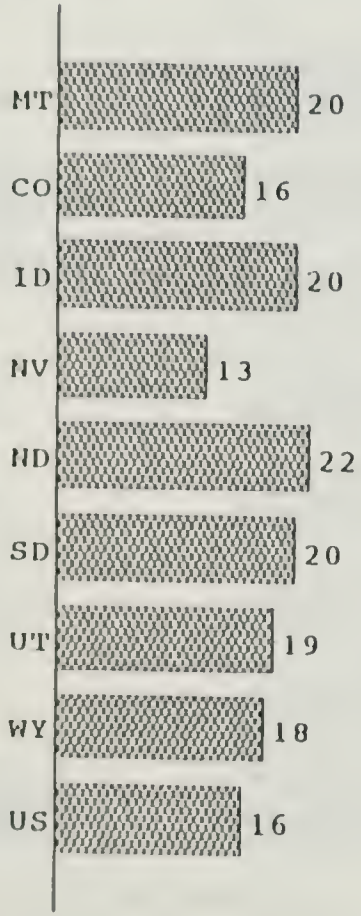
PERCEPTIONS OF MONTANA

	Business Climate Ranking[1]	Small Business Environment[2]		Living Conditions[3]	
		Readers	Editors		Rank of 277 SMSA's
Montana	28	C	B	Billings	125
				Great Falls	215
Colorado	3	B	A	Colorado Springs	159
				Denver	16
				Fort Collins	200
Idaho	14	A	A	Boise	119
North Dakota	5	A	A	Fargo	116
South Dakota	11	C	B	Sioux Falls	87
Utah	23	C	C	Provo-Orem	167
				Salt Lake City	44
Wyoming	22	D	C	N/A	

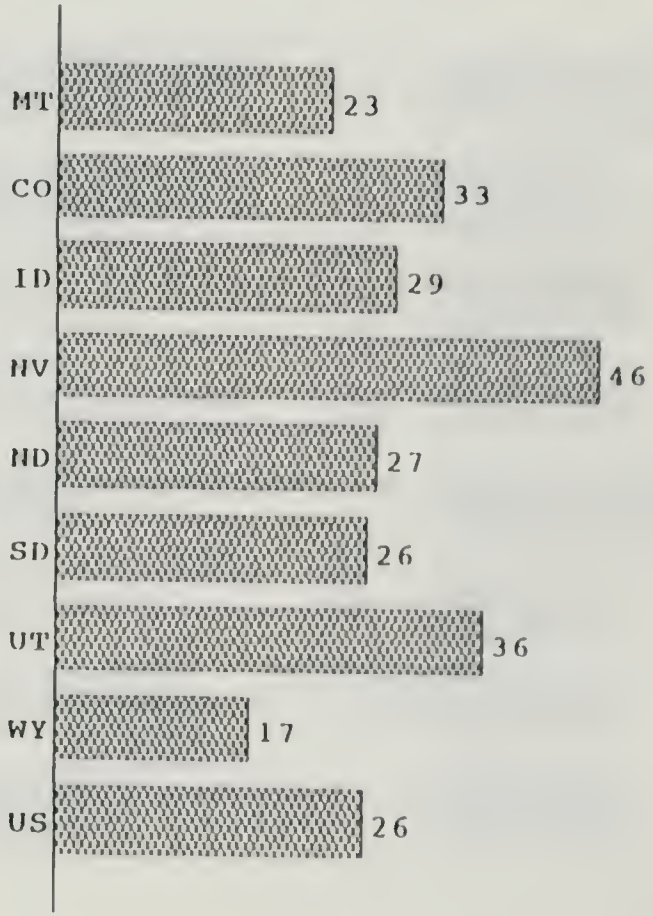
Sources:
1. General Manufacturing Business Climates of the Forty-Eight Contiguous States of America, Alexander Grant & Co., 1981.
2. INC, "Readers Rate Their Own States", February 1982, scale of A-D.
3. Places Rated Almanac, 1981, 277 SMSA's.

Forecasts of Future Growth
1988-2000

REAL PER CAPITA INCOME
% change



TOTAL REAL PERSONAL INCOME
% change



Source: Bureau of Economic Analysis

PERCEPTIONS OF MONTANA
1989

	Business Competitiveness Ranking	Living Conditions	Rank of 333 SMSA's
Montana	32	Billings	231
		Great Falls	188
Colorado	45	Colorado Springs	146
		Denver	39
		Fort Collins	205
Idaho	34	Boise	111
North Dakota	25	Fargo	118
South Dakota	50	Sioux Falls	175
Utah	41	Provo-Orem	84
		Salt Lake City	16
Wyoming	31	Casper	325
		Cheyenne	263

Sources: 1. The 1989 Development Report Card for the States
2. Places Rated Almanac, 1989

Supplies

Montana has strong positions in selected resources - although there are relatively few in which it is a dominant influence.

MONTANA RESOURCES

Resource	Value $ Millions	Rank	Competitiveness
Agriculture			
Livestock	$750	2% of U. S. production	
Wheat	450	6th—6% of U. S. production	High quality Alternate-year cropping
Barley	100	4th—12% of U. S. production	Irrigation required
Energy			
Coal	300	5% of national production	Medium quality, low extraction costs—but Wyoming better positioned for growth markets, and lower cost
Oil	650	Minor—less than 1% of U. S. reserves	Activity level somewhat sensitive to price
Gas	75	Minor—less than 0.5% of U. S. reserves	
Electricity	75 (exported power)	n.a.	On a par with other Western coal burning states

Source: Various published sources

Markets

Montana is at least 500 miles further from major markets than any other state in the U.S. National and even regional population and market centers are far away, relative to other western states. There are no significant regional markets within 500 miles, except Alberta.

MONTANA'S ACCESS TO MARKETS

Source: Road atlas

Montana has relatively few large labor pools. This may sharply reduce the likelihood of locating a large-scale facility within the state - unless it is tied to a specific resource.

LABOR AVAILABILITY

TOTAL NUMBER OF COUNTIES WITH POPULATION GREATER THAN:

State	10,000	25,000	50,000	100,000	250,000	500,000
Montana	21	7	4	1	0	0
Colorado	30	12	10	9	4	0
Idaho	23	9	6	1	0	0
North Dakota	15	5	4	0	0	0
South Dakota	17	3	2	1	0	0
Utah	17	8	5	4	1	1
Wyoming	15	6	2	0	0	0

Source: 1980 Census

MONTANA RESOURCES

Resource	Value $ Millions	Rank	Competitiveness
Metals			
Copper	$100	Minor—3% of U. S. production	May be marginal producing region
Gold	30	4th—3% of U. S. production	Largely by-products of copper mining, but small mine operations increasing
Silver	40	5th/6th—6% of U. S. production	
Others	Molybdenum getting increased attention Reserves of high-value strategic metals No iron/steel activity in state		
Nonmetals			
Bentonite	$ 20	2nd—15% of U. S. production	One of few U. S. reserves
Renewable			
Timber	360	Medium—< 10% of national reserves	Timber industry undergoing significant change
			Montana has longest growing cycle
Water	?	n.a.	Headwaters for major river flows
Tourism	600	n.a.	"Bridge state" for Midwest to West Coast
			Attractions appeal to specific groups of tourists
R & D			
Agriculture	100 + staff	Medium	Focused on production/yields
Mining	40 staff	Comparatively small	Quality of graduates high—research program reputation unclear
Forestry	30 staff	Unclear: Major centers may be corporate, particularly for applications	
Energy/MHD			State-of-the-art

Labor productivity is difficult to measure, as it varies according to mix of activities within an industry and the technological processes employed, but analysis suggests Montana productivity is good - and interviews confirm this.

VALUE ADDED PER EMPLOYEE
$/production hour

	Montana	Colorado	Idaho	North Dakota	South Dakota	Utah	Wyoming	U.S.
Food and kindred products	$27	31	14	20	21	20	25	29
Lumber and wood	18	14	16		13	13		16
Stone, clay, glass	30		19	21	23	25	26	22
Fabricated metals	20	21		12	21	21		20
Nonelectrical machinery	14	31	11	25	15	35		26
Electric, electronic equipment	15			14	9	24		23

Source: 1978 Annual Survey of Manufacturers, Bureau of the Census

Labor Availability
1986

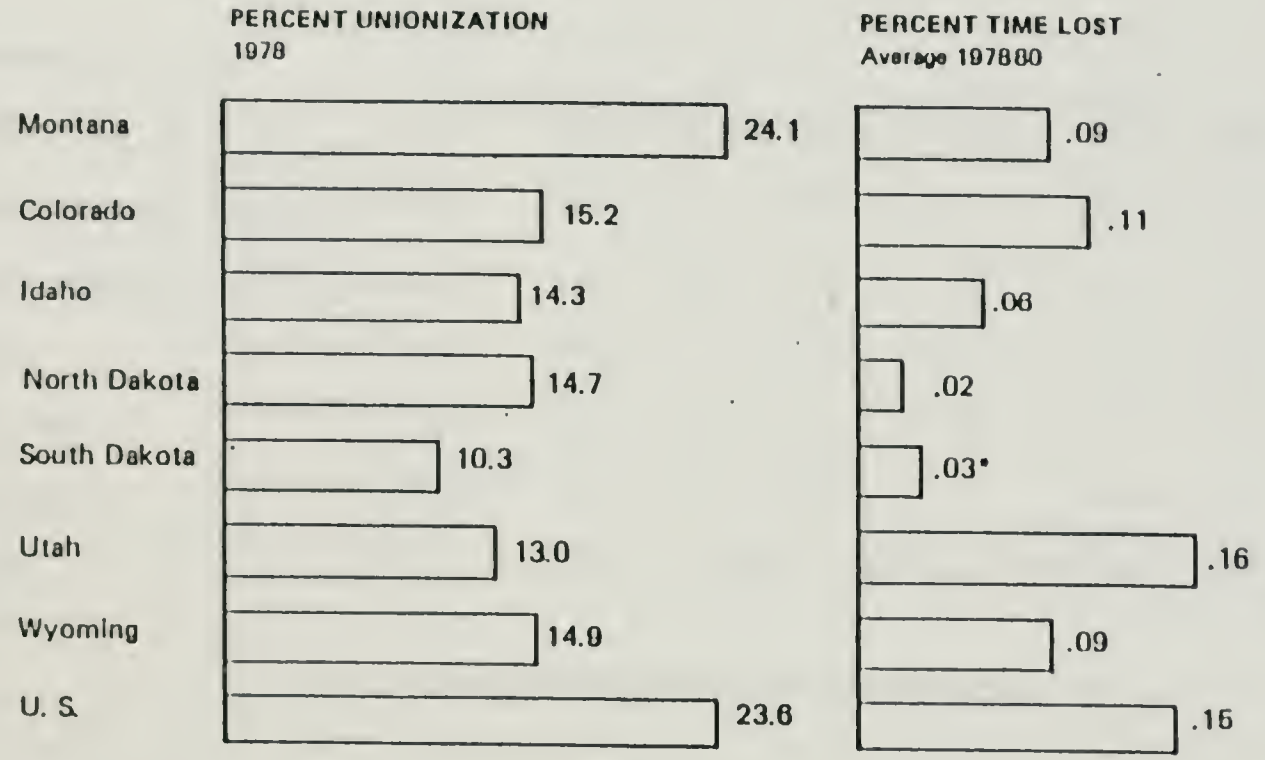
Total counties with population greater than:

State	10,000	25,000	50,000	100,000	250,000	500,000	Total counties
Montana	21	8	4	1	0	0	56
Colorado	32	14	10	9	5	1	63
Idaho	23	10	6	1	0	0	44
North Dakota	16	7	4	0	0	0	53
South Dakota	17	3	2	1	0	0	66
Utah	19	9	6	5	1	1	29
Wyoming	16	7	2	0	0	0	23

Source: Census Bureau

Montana is much more unionized than neighboring states - but its "time lost" record is good.

UNIONIZATION AND TIME LOST



* 2 year average

Source: U. S. Bureau of Labor Statistics, Directory of National and International Labor Unions in the U. S.

VALUE ADDED PER EMPLOYEE 1990
Dollars per production hour

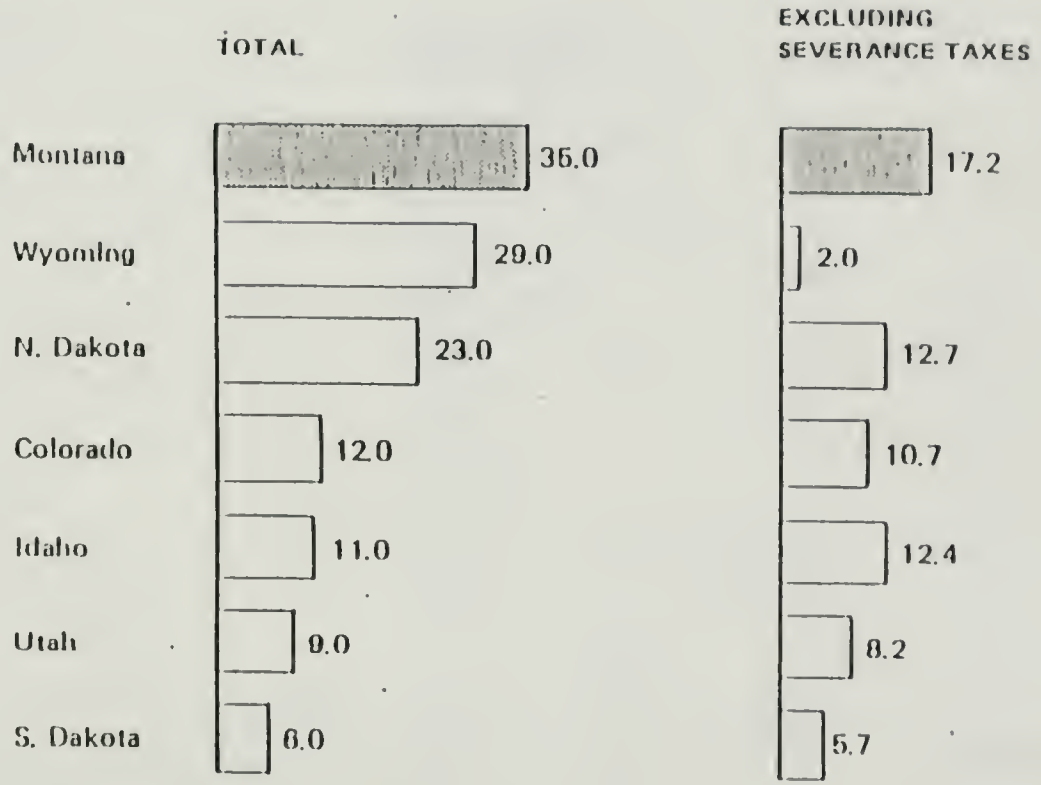
	Montana	Colorado	Idaho	N.D.	S.D.	Utah	Wyoming	U.S.
Food and kindred products	66	86	39	58	38	43		66
Lumber and wood	28	21	22		27	18	35	25
Stone, clay, glass		40	30			33		42
Fabricated metals		38	32		29	37		37
Nonelectrical machinery		58	84	72	38	57	68	55
Electric, electronic equipment		52	57		31	38		57

Source: 1990 Annual Survey of Manufacturers, Bureau of the Census

Montana relies much more heavily on production taxes than consumption taxes than do neighboring states, even excluding the severance tax

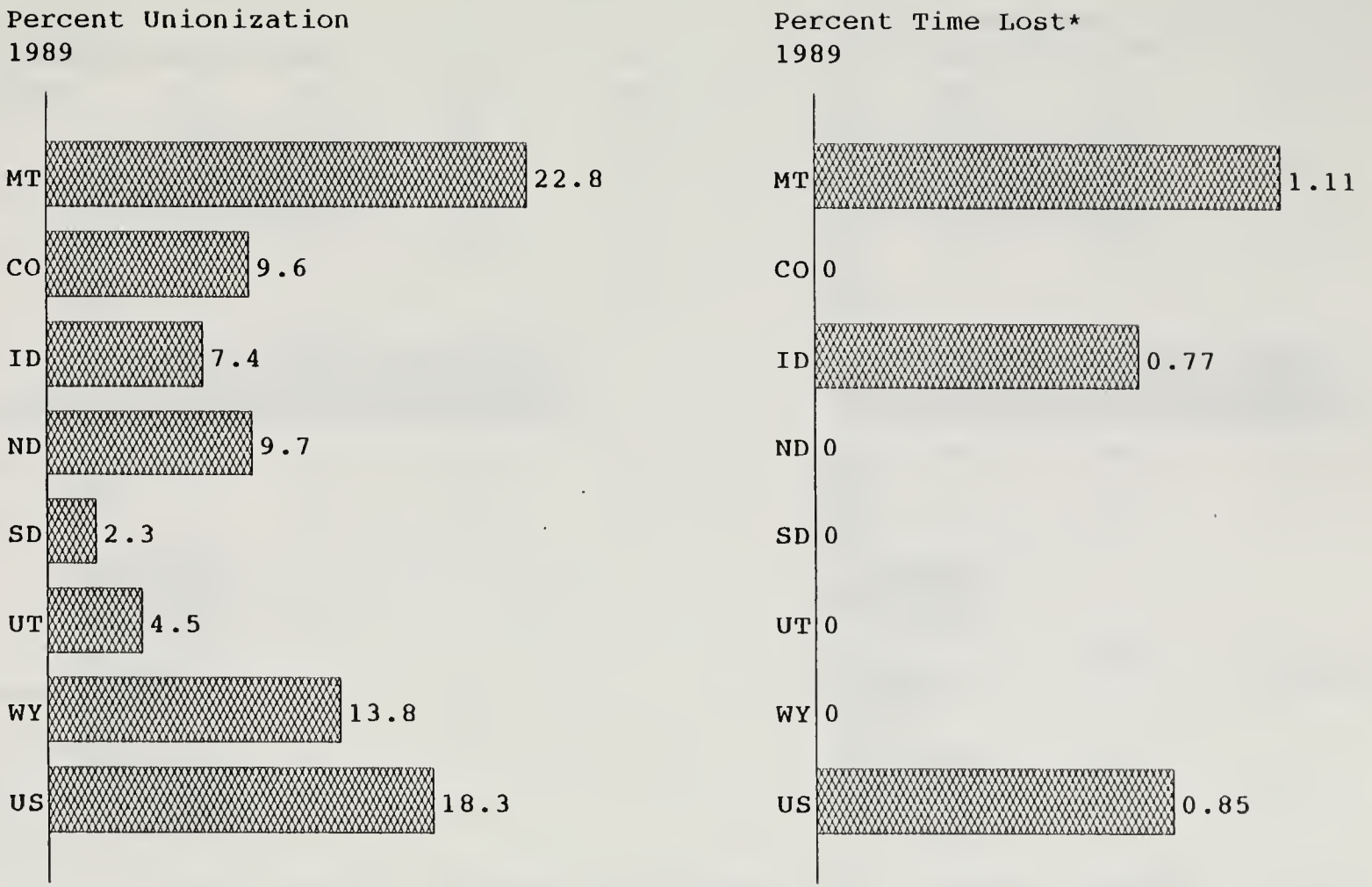
STATE RELIANCE ON PRODUCTION-BASED TAXES

Percent of tax revenues



Source: *State Tax Handbook*, U.S. Department of Commerce; McKinsey analysis

UNIONIZATION AND TIME LOST



*Information available only for work stoppages involving 1,000+ workers
Source: Grant Thornton Manufacturing Climates Study, August 1990

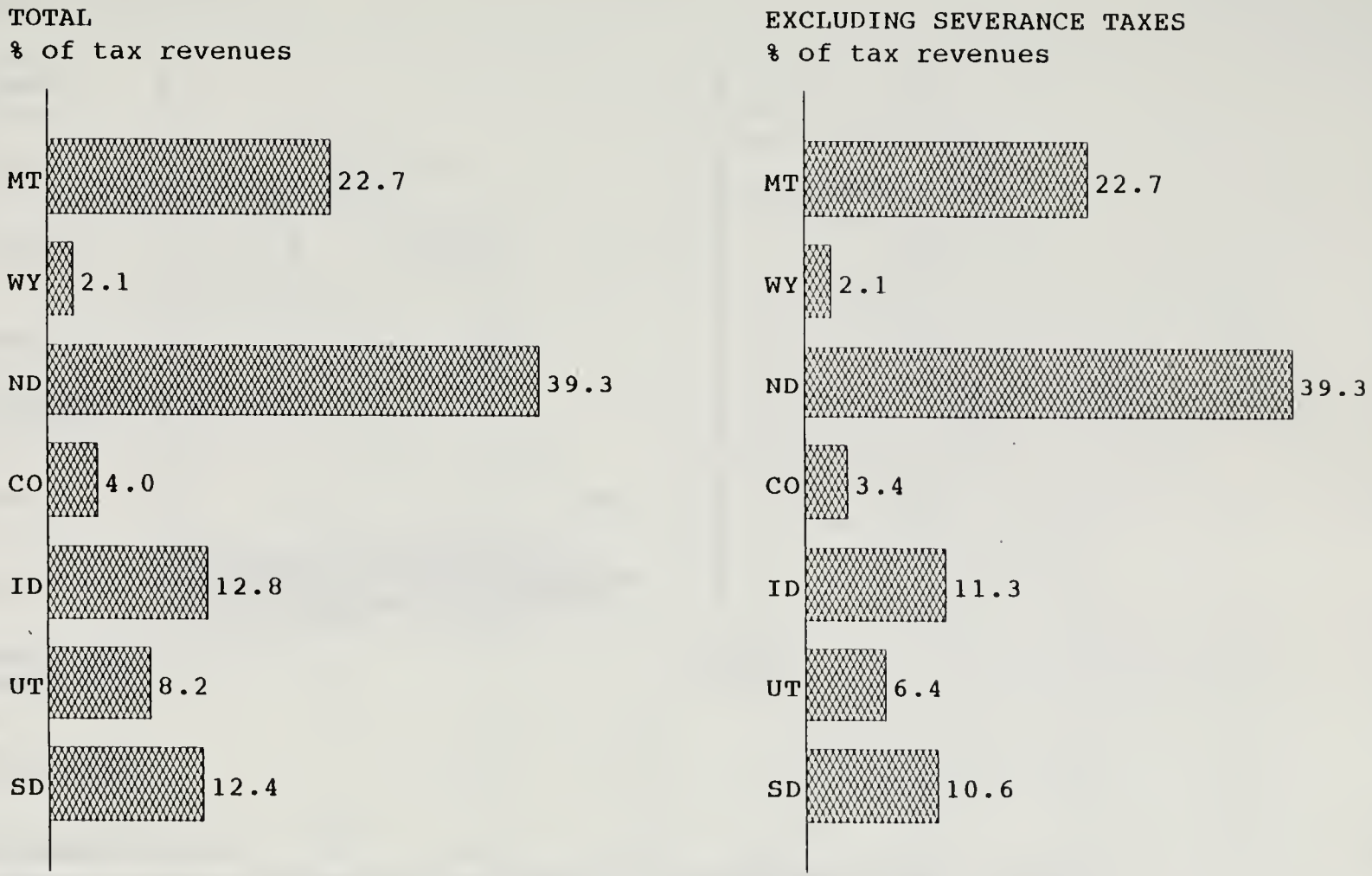
INDIVIDUAL STATE TAX CONTRIBUTIONS AS A PERCENT OF ALL REVENUE, 1980

TAX	STATE							
	Montana	Colorado	North Dakota	South Dakota	Utah	Wyoming	Washington	Oregon
PRODUCTION-BASED								
Corporate organization	0.1	0.2	0.1	0.1				
Corporate income	10.4	6.7					13.9	12.3
Corporate franchise					5.1	0.2	0.1	0.1
Banks/franchise organization			7.8	1.2				
Cement	.03							
Oil and gas producers	2.5		11.8			27.2[a]		Effective Jan '82
Forest products							Local	3.5
Coal severance	17.2	.7						
Metalliferous	0.6							
Severance		1.3		0.9	1.3			
Chain store	0.1	-						
Utilities	1.5	0.1			0.2		3.7	0.3
Insurance company	2.7	2.7	2.5	3.9	2.3	1.8	1.5	2.3
Express company				0.1				
Total Production	35.0	11.8	23.2	6.3	8.9	29.2	19.3	18.5
CONSUMPTION-BASED								
Personal income	31.0	31.8	16.4		33.8			59.9
General property	4.2	0.2	0.4		-	5.9	11.150	
Oleomargarine		0.6						
Milk and cream				0.9				
Gasoline	11.7	7.6	9.0	15.5	9.4	9.7	8.793	6.4
Alcoholic beverage	3.5	1.7	1.8	2.9	0.8	0.5	2.914	0.8
Conveyance							8.2	
Motor vehicle fees	5.2	3.6	7.2	10.6	2.6	8.1	8.2	7.5
Cigarettes/tobacco	2.7	2.3	2.6	3.9	1.3	1.4	2.2	2.1
Sales and use		36.1	33.4	54.4	41.3	42.0	41.8	
Inheritance/estate	2.0	2.0	0.8	2.7	0.2	0.7	1.9	1.9
Total Consumption	60.2	86.0	71.5	90.8	89.4	68.4	77.2	78.5
PERCENT OF ALL REVENUE	95.2	97.7	94.6	97.0	98.4	97.6	96.432	97.0

[a] Includes coal, oil, gas

Source: State Tax Handbook, U.S. Department of Commerce, State Offices of Revenue

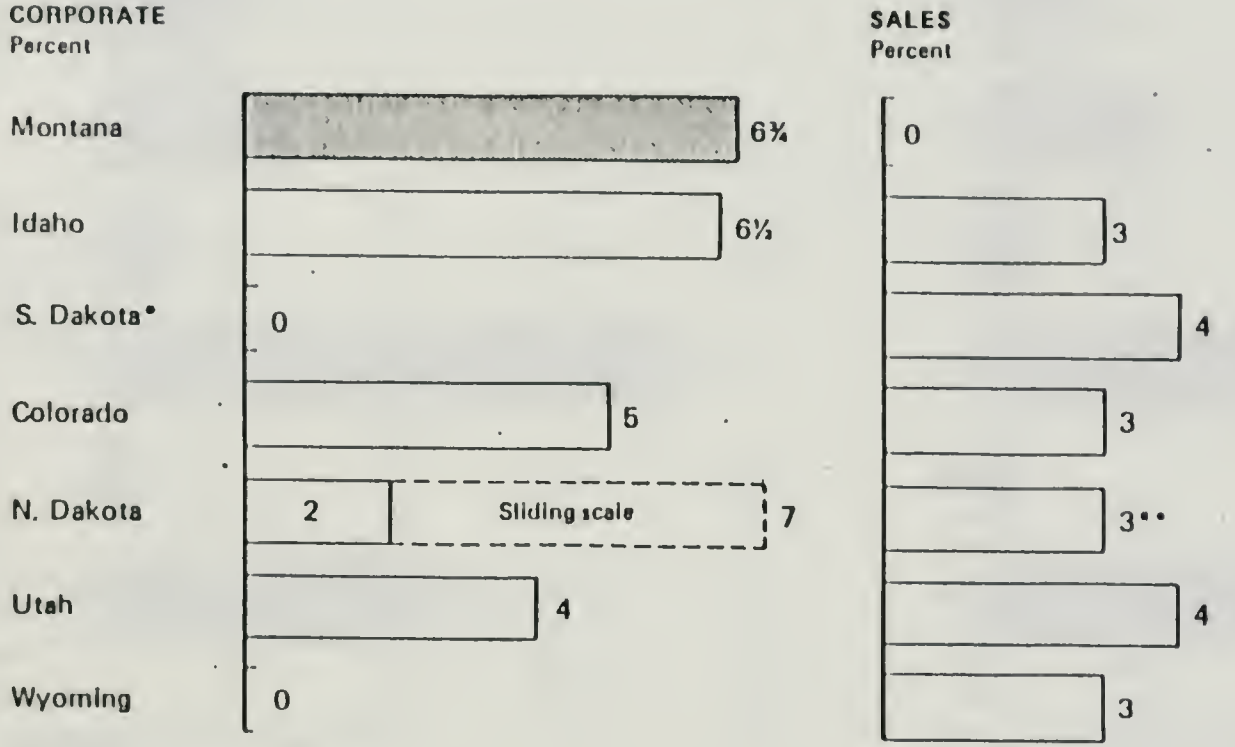
STATE RELIANCE ON PRODUCTION-BASED TAXES
1989



Source: State Tax Handbook 1989, U.S. Department of Commerce

Montana has about the highest corporate income tax of all neighboring states - and is the only one without a sales tax

STATE TAX RATES



• Banks and Financial Institutions 6%
•• Farm machinery taxed at 2%

Source: *The Book of the States, 1982-83*

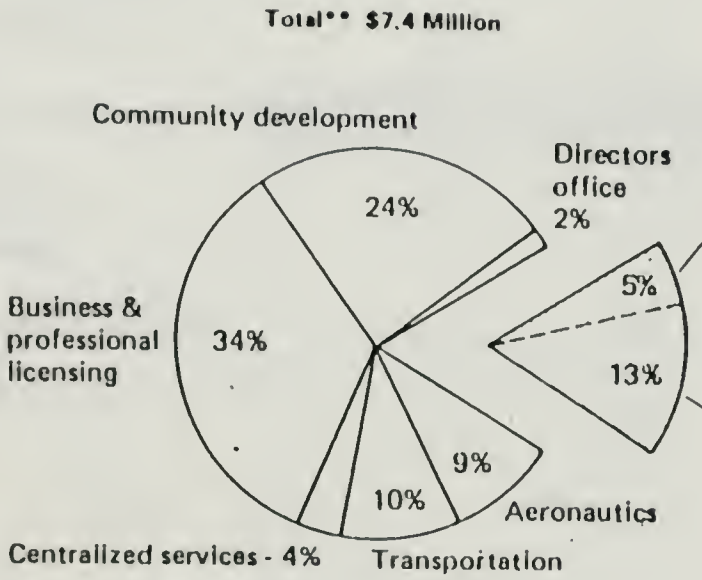
Individual State Tax Contributions as a Percentage of All Revenue, 1989

	MONTANA	Colorado	N.D.	S.D.	Utah	Wyoming	Wash.	Oregon
PRODUCTION-BASED								
Corporate organization	0.1	0.1	0.1	0.2				0.2
Corporate income			24.2				0.1	
Corporate franchise					4.5	0.4		7.9
Banks/franchise org.								
Cement				5.5				
Oil and gas producers	15.8		12.7					
Forest products								
Coal severance		0.3						1.5
Metalliferous								
Severance		0.3		1.8	1.8			
Chain store								
Utilities	1.5	0.2					3.1	0.5
Insurance company	5.3	3.0	2.3	4.9	0.3	1.7	1.6	2.8
Express company					1.6			
Total Production	22.7	4.0	39.3	12.4	8.2	2.1	4.7	12.8
CONSUMPTION-BASED								
Personal income	40.6	47.9			39.8			60.8
General property	4.9	0.2	0.3			13.5	10.3	
Oleomargarine								
Milk and cream								
Gasoline	14.3	11.0	10.1	13.0	8.1	6.4	7.3	7.9
Alcoholic beverage	2.1	0.9	0.9	1.9	1.0	0.2	1.8	0.6
Conveyance								
Motor vehicle fees	4.5	3.3	5.6	8.9	2.9	7.3	8.4	9.7
Cigarettes/tobacco	1.7	2.3	2.6	3.0	1.4	0.7	2.2	3.3
Sales and use		26.6	32.3	55.2	36.8	26.4	40.9	
Inheritance/estate	1.2	0.5	0.2	2.2	0.2	0.3	0.3	0.7
Total Consumption	69.2	92.7	52.1	84.2	90.1	54.7	71.2	83.0
PERCENT OF ALL REVENUE	91.8	96.7	91.5	96.6	98.3	56.8	75.9	95.8

Source: State Tax Handbook, 1989 U.S. Department of Commerce

Few of the Commerce Department's activities are truly in economic development. . .

COMMERCE DEPARTMENT BUDGET



Business promotion and assistance

Program	$ Thousands
Attract new business	60.4
Small Business Assistance*	230.8
One stop licensing	34.1
Administration*	42.3
Total	367.6

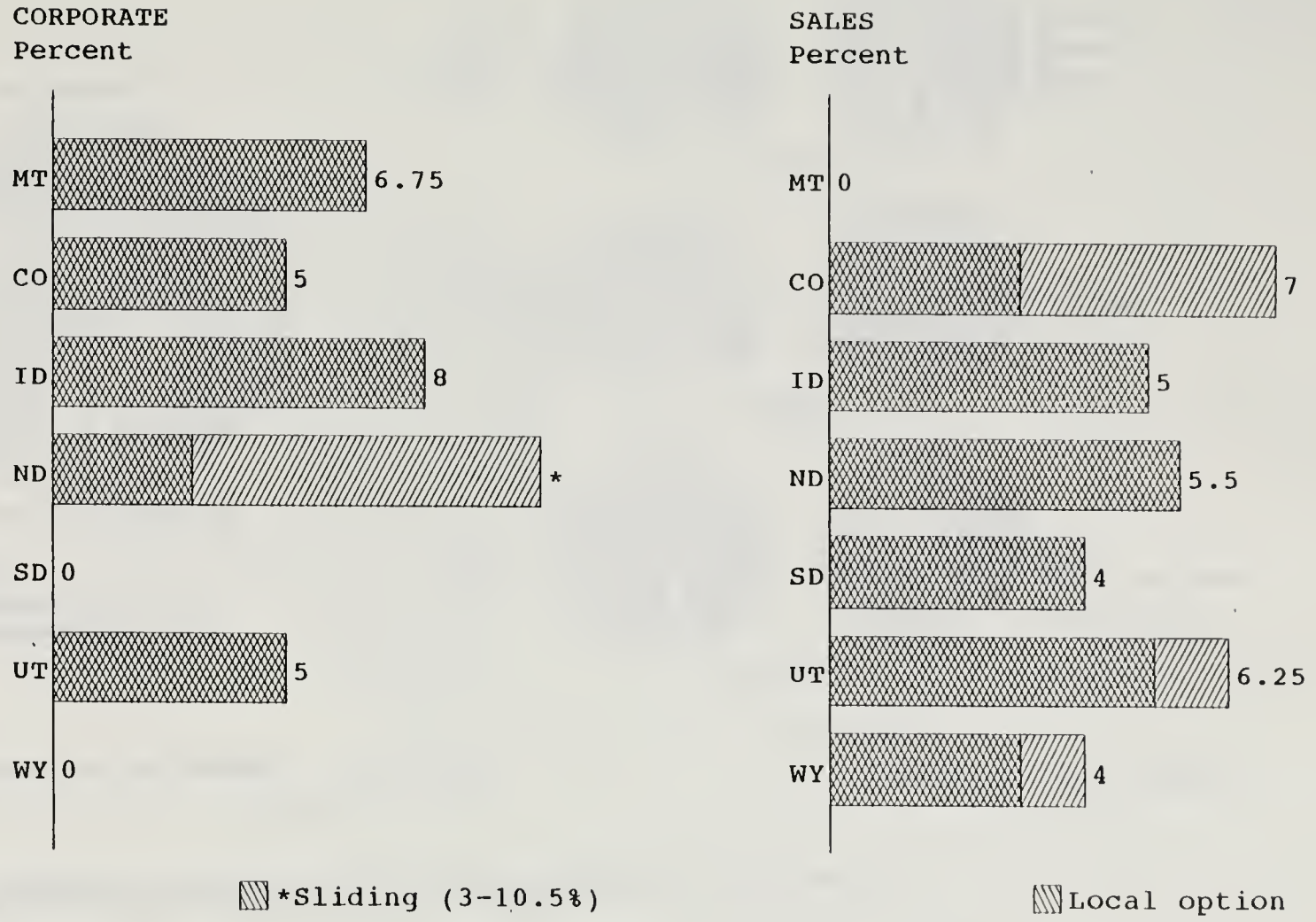
Tourism

Program	$ Thousands
Travel promotion	927.7

* 62% of these funds are federal and have been cut from the 1984 federal budget
** Coal Board and Federal Community Development Block Grants excluded

Source: Montana Commerce Department

State Tax Rates



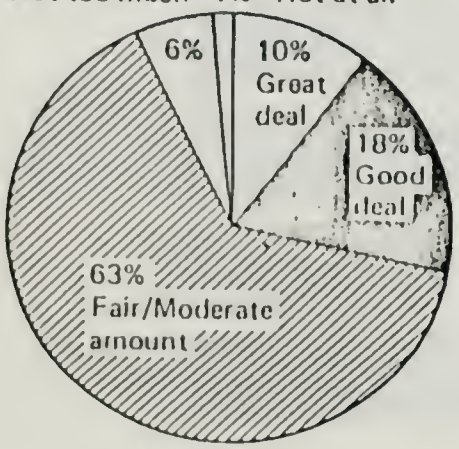
Source: NASDA Directory of Incentives for Business Investment and Development, 1991

5 - ATTITUDES TOWARDS ECONOMIC DEVELOPMENT

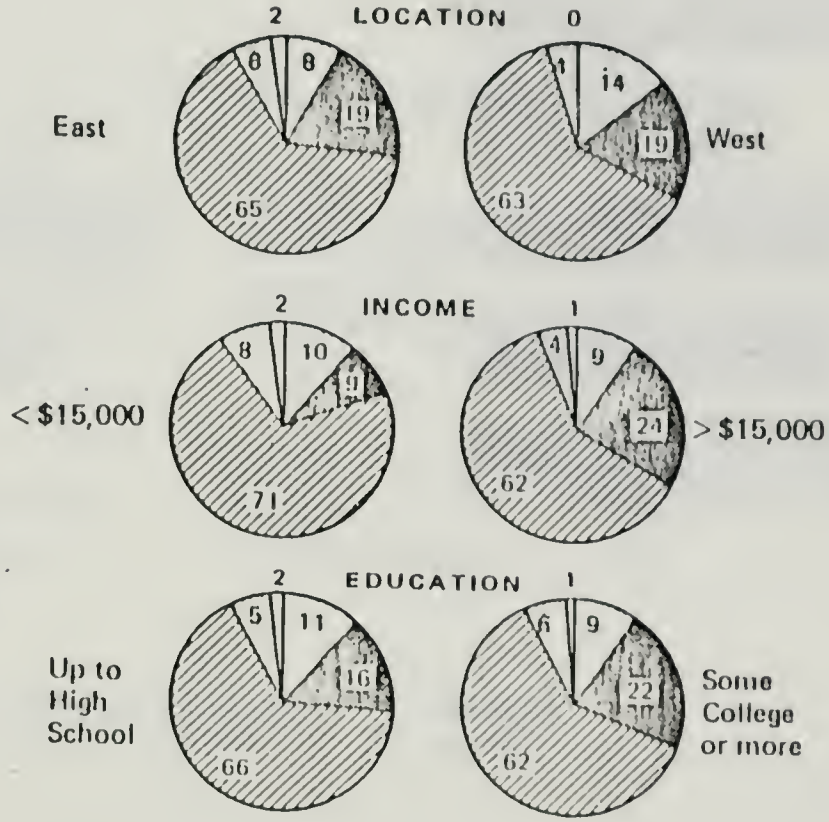
The Montana Poll indicated a near universal desire for economic growth

MONTANANS FAVOR GROWTH

How much should Montana's economy grow over the next five years?



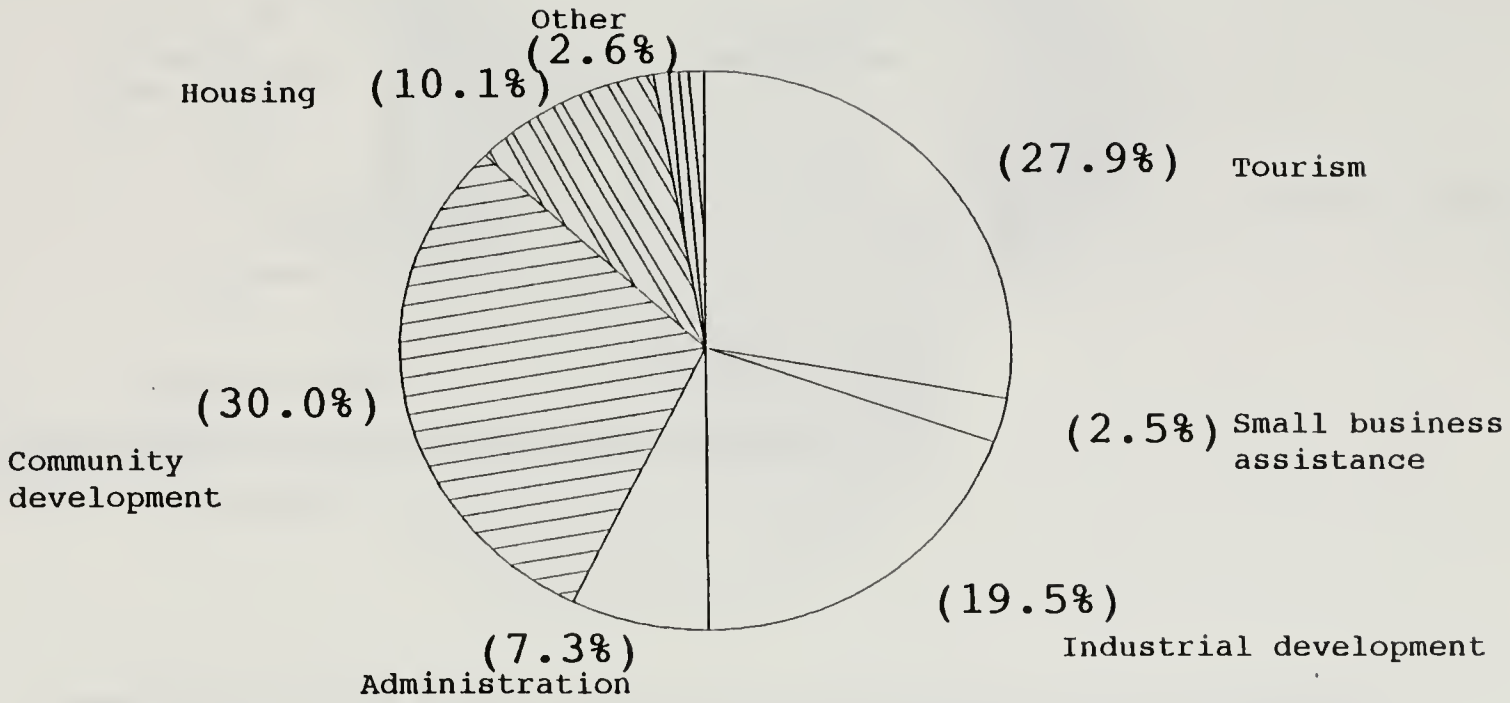
All responses



Source: *Montana Poll*, June/July, 1982

Commerce Department Budget
1991

Total: $20.3 million*



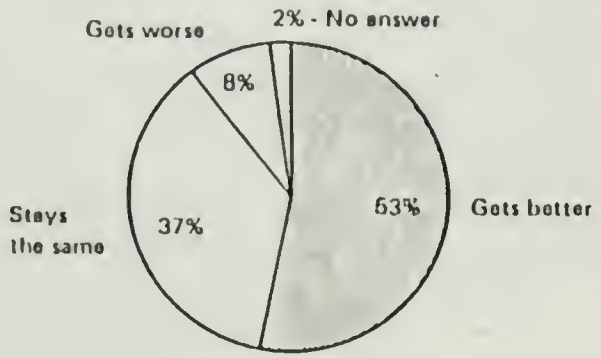
*excludes Coal Board, Hard Rock Board

Source: NASDA State Economic Development Expenditure Survey

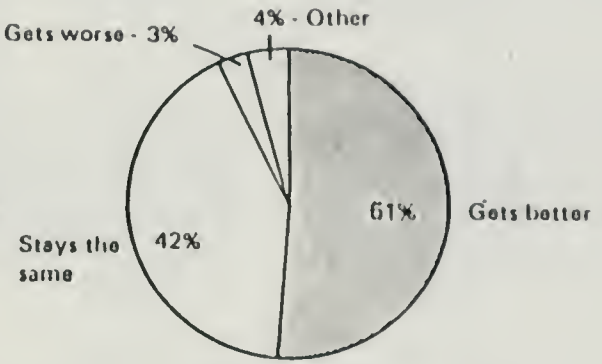
Most people believe they personally benefit from economic growth in both their standard of living and overall quality of life

WHEN THE STATE ECONOMY GROWS, WHAT HAPPENS TO YOUR:

STANDARD OF LIVING



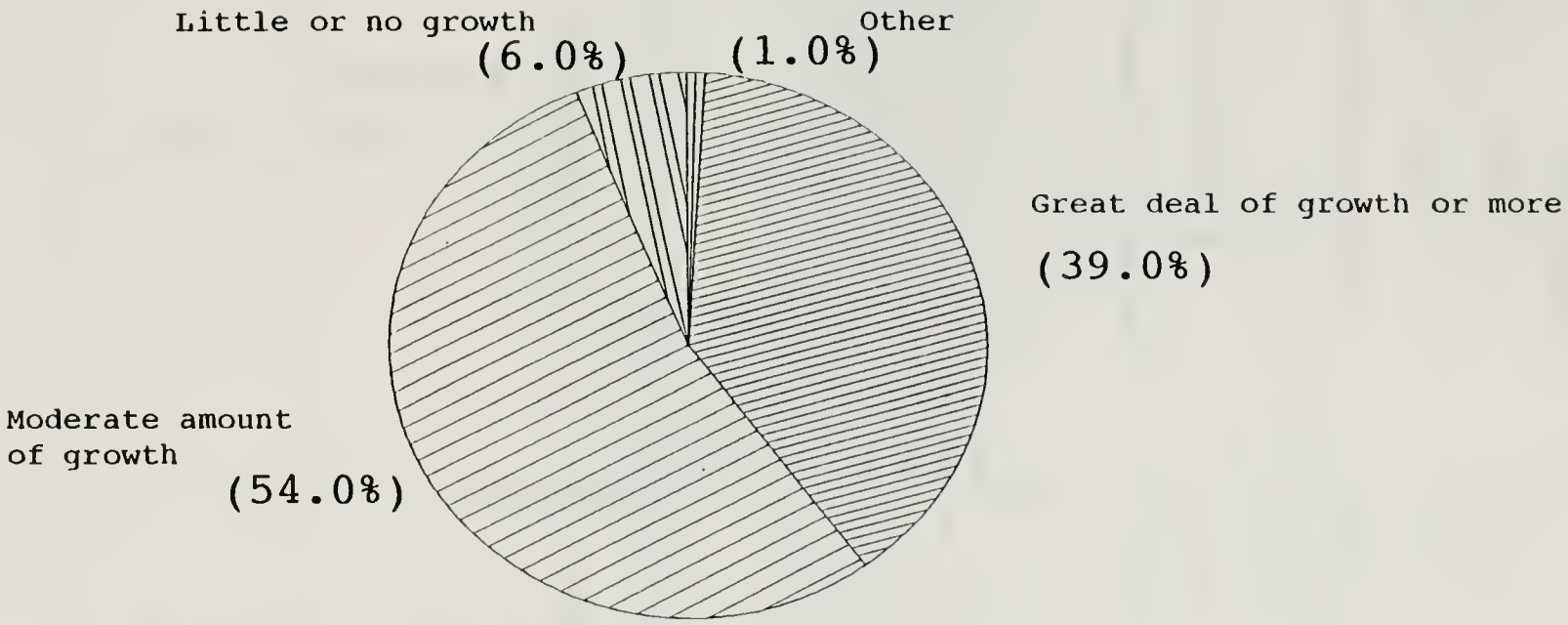
QUALITY OF LIFE



Source: *Montana Poll*, June/July 1982

Attitudes Towards Economic Development
December 1991

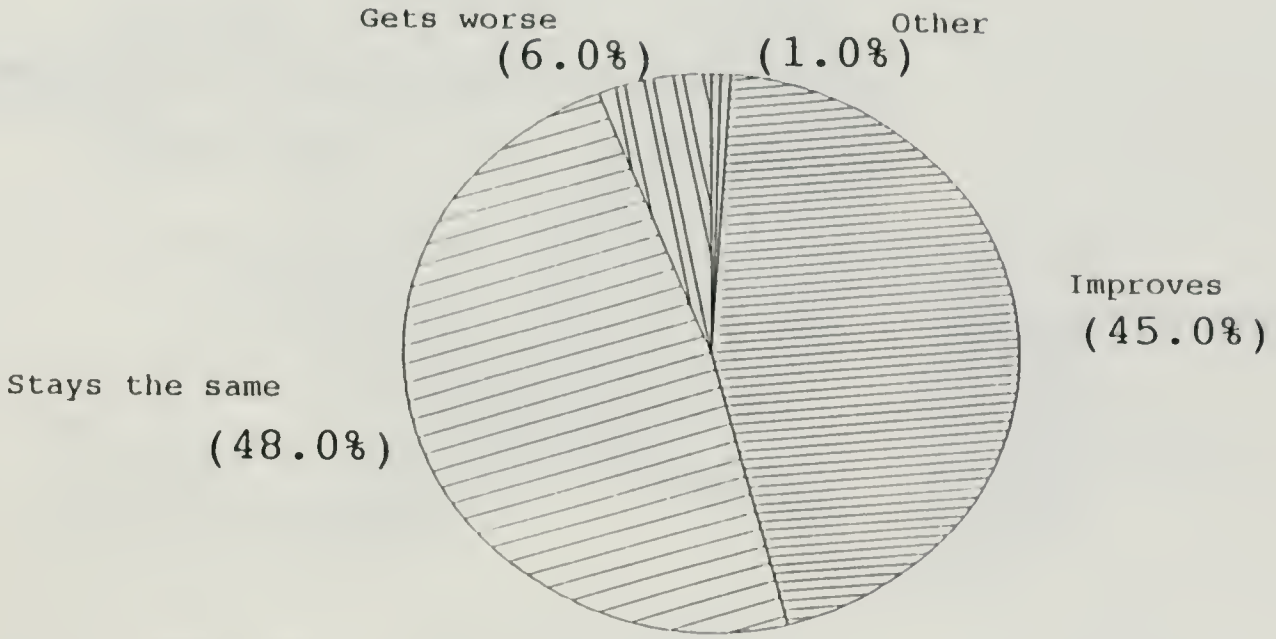
What are your thoughts about how much the state economy should grow in the next five years... what would be best for Montana?



Source: Montana Business Quarterly, Summer 1992

Attitudes Towards Economic Development
December 1991

Impact of Economic Growth on One's Own Standard of Living
My own standard of living...



Source: Montana Business Quarterly, Summer 1992

MONTANA
State Summary

1988-90 Net Employment Change	9.8 percent
1986-88 Net Employment Change	-.9 percent
Fastest-Growing Small Business Industries	1. High Tech Manufacturing 2. General Manufacturing 3. Business Services
Growth Rate of Small Exporters	31.9 percent
Percent of Small Women-Owned Businesses	12.4 percent

Summary

Thanks to the efforts of the state's entrepreneurs, Montana is truly one of the West's biggest comeback stories of the late 1980's. Not only did this state soar to a growth rate well above U.S. and western averages, it did it with help from some potentially surprising sources. While the total population of reported exporters remained small in number, their aggregate employment growth rate was well in excess of the U.S. average. In addition, the state's women entrepreneurs account for business ownership and employment levels which are above the norm.

Data Sources: Cognetics Consultants, Inc. and the US Bureau of Labor Statistics

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Montana Performance Comparisons, 1988-90

	Montana	US WEST Region	US Total
% Small Establishments	94.0	92.2	91.2
% Small Business Employment	67.4	52.4	47.0
% Job Growth of Small Businesses	2.6	4.5	4.3
% Job Growth of Large Businesses	-0.8	1.9	0.1
% Startups	9.3	12.6	14.5
% Significant Startups	3.4	5.4	6.3
% Young High Growers	2.5	4.1	4.4
% High Growers	1.7	2.9	3.2
% Growers	7.7	10.5	10.8
% Closures	14.3	12.8	13.3
% Business < 10 Years Old	58.9	63.5	61.0
% Non-local Establishments	5.0	5.4	5.1
% Non-local Jobs	13.6	17.9	16.8
% Job Growth of Non-Local Businesses	-1.4	1.9	0.3
% Job Growth of Local Businesses	1.6	3.4	2.3
% Mfg Establishments which Export	1.6	4.3	4.8
% Exporters which are Small	87.2	80.6	80.0
% Exporting High Growers	20.9	16.2	12.4
% Job Growth of Small Exporters	31.9	18.1	11.2
% Job Growth of Large Exporters	-5.7	4.6	-0.2
% Small Women Owned Businesses	12.4	9.9	10.8
% Small Employment - Women Owned	9.6	7.6	8.1
% Small Women Owned High Growers	1.3	1.8	2.0
% Small Startups - Women Owned	15.7	23.8	30.0

Data Sources: Cognetics Consultants, Inc., The National Foundation for Women Business Owners, and the US Bureau of Labor Statistics

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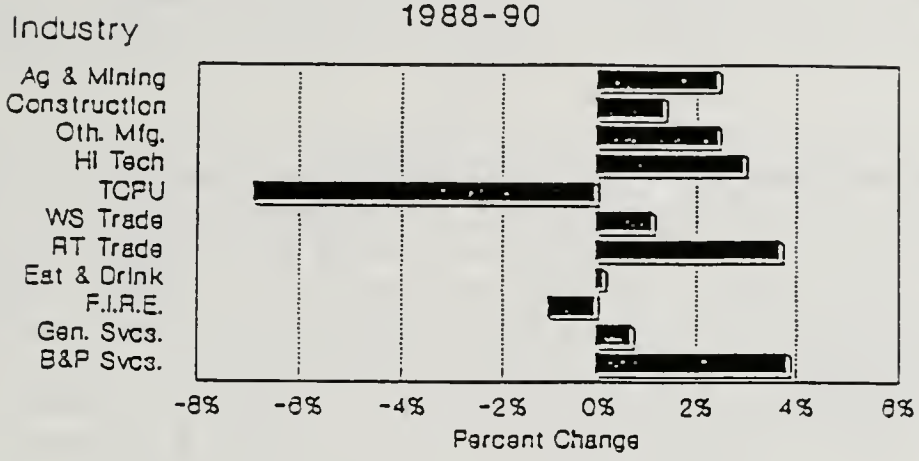
State Industry Summary
Montana

Percent Employment Change by Industry
1988-90



Industry	% Small Business Job Growth	% Large Business Job Growth	% Non-local Business Job Growth	% Significant Starts	% Growers
Agriculture & Mining	2.3	3.0	0.8	2.4	3.3
Construction	3.2	-22.2	0.7	1.0	4.3
General Manufacturing	7.7	-2.4	-1.5	3.9	10.4
High Tech Manufacturing	11.7	-4.0	1.2	16.5	18.8
Transportation/Utilities	-3.7	-8.8	-0.2	5.5	8.9
Wholesale Trade	1.9	-1.3	-0.9	4.6	10.4
General Retail	1.7	8.7	3.4	5.4	8.7
Eating & Drinking	-0.0	2.7	3.0	3.6	5.6
Finance/Insurance/Real Estate	0.2	-5.5	-1.6	2.0	6.9
General Services	3.8	-5.0	-24.4	1.6	6.5
Business & Prof Services	5.5	2.6	-0.9	4.3	13.6
All-Industry Average	2.6	-0.8	-1.4	3.4	7.7

Data Sources: Cognetics Consultants, Inc. and the US Bureau of Labor Statistics

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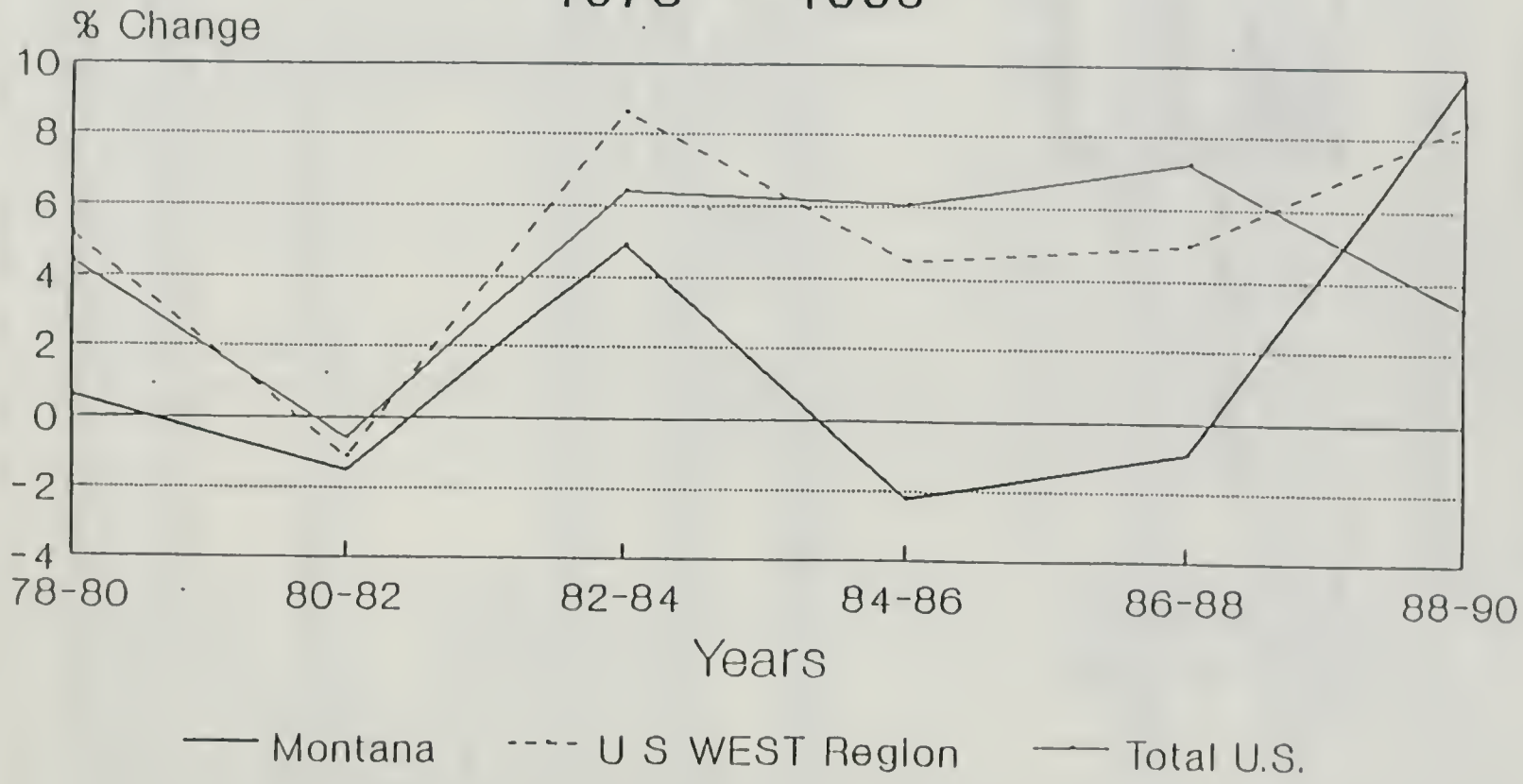
State Performance Summary
Montana

Employment Growth Rate
1978 - 1990



(Change measured in non-agricultural employment.)

PART 6 BUSINESS NEEDS ANALYSIS

Preliminary findings from the concurrent Corporation for Enterprise Development's (CfED) "Entrepreneurial Action Project" were presented by Rick Carlisle and Mitch Horowitz on Tuesday, August 4, 1992. Funded by the Northwest Area Foundation, the study involved a review of the business service needs in the Great Falls area. The counties involved include: Blaine; Cascade; Chouteau; Fergus; Glacier; Hill; Judith Basin; Liberty; Meagher; Phillips; Pondera; Teton and Toole.

The Corporation for Enterprise Development, a North Carolina-based economic development consulting firm, is surveying 600 of Montana's small businesses located within the thirteen-county area around Great Falls. This survey pinpoints the resource-delivery needs of small businesses and assesses the matchup between services needed and services actually available, as well as assessing the quality of existing services (public and private); and will make recommendations for new and improved business services in the area. The thirteen counties extend from Malta to Cut Bank and south to White Sulphur Springs. The telephone interviews are intended to pinpoint development issues, diagnose economic ailments, and prescribe specific solutions, including business development programs, financing alternatives, and technical assistance initiatives.

The first part of the project involves an analysis of the "demand side" of the business needs of firms in the Great Falls region and a review of the economy in which these firms operate. The study presents an in-depth view of small enterprises in the region, major barriers to growth and expansion, and an assessment of the specific types of assistance most "demanded" by firms on an industrial sector specific basis. CfED will undertake the "supply side" analysis of providers of technical and financial assistance in the fall.

The following pages are taken directly from the preliminary report and identify the research approach and key findings about the profile of Great Falls businesses, how well they are performing and how well the Great Falls economy is performing.

II. UNDERSTANDING YOUR ENTERPRISES

A. RESEARCH APPROACH

- Profile of your enterprises
  - * Size
  - * Ownership patterns
  - * Characteristics of owners/operators
  - * Customers and competitors
- How well your enterprises are performing
  - * Changes in sales, profits, employment
  - * Financial and management problems
  - * Future plans
- How well your overall economy is performing
  - * Trends in population, employment and income
  - * Analysis of base industries
  - * Dynamics of job generation

B. KEY FINDINGS

- Great Falls businesses – similar to those across the state – tend to be smaller and more locally-owned in comparison to the nation.

- Despite the smaller size of Great Falls businesses, a fair number generate sales over $500,000 and are organized as corporations.

- Many Great Falls businesses are part of the "hidden" economy – being home-based and/or seasonal businesses. This is particularly the case for start-up basic firms.

- It took less than $25,000 for more than 4 out of 10 recent basic businesses to get started in Great Falls – demonstrating the micro-enterprise nature of new business starts in Great Falls. Among recent nonbasic business start-ups, the amount of money needed to get started was typically in the $50,000 to $75,000 range.

- The predominant reasons for Great Falls' residents to start a business are driven by choice (had a business idea or work for self), though a considerable number of businesses were started in order for local residents to earn more money.

- Great Falls businesses appear to be "sheltered"

  * a high percentage of customers are located within 50 miles, including for basic firms

  * competitors are more likely to be seen within local area than outside the local area

- Government is a key customer for Great Falls businesses – probably showing the importance of federal procurement

- Great Falls' business owners are predominantly men, middle aged, well-educated, with income well above poverty levels and generally earning their income from their business.

* recent business start-ups are nearly as likely to be owned by women as men

* a large minority of business owners have income from other business ventures or from other members of the family working

C. KEY FINDINGS

Births and Deaths of Firms

- A considerable number of births and deaths of businesses occurred in Great Falls region over the decade 1978 to 1988
- Small locally-owned firms made up the majority of births and deaths, though branch plants comprised a substantial minority
- Great Falls lagged the state and nation in the ratio of locally-owned births to deaths, but performed very well in the ratio of branch plant births to deaths

Sales and Profits Growth

- While a majority of businesses recorded sluggish sales and profit growth over the past five years, a quarter to a third of the businesses enjoyed robust growth.

Business Advantage/Disadvantage Over Competitors

- Service, quality and experience/reputation are the key competitive advantages most frequently cited by Great Falls' businesses
- Locked in trading relationships are seen as a key competitive disadvantage for existing businesses in the region. Pricing and financing are mentioned by a sizable minority of businesses.

Business Problems

- Hiring workers and preparing loan packages are seen as key business problems across the spectrum of businesses in the Great Falls region.

- Other key business problems for specific types of businesses (at least 30% having problem) include:

  * developing marketing strategy – start-up non-basic and basic
  * financial management – start-up nonbasic
  * developing accounting systems – start-up nonbasic and basic
  * structuring financing – start-up basic and nonbasic and existing nonbasic

Business Plan

- The most frequently cited business plans are positive – improving net worth, sales and profits

- A hint of troubles ahead is found for existing basic businesses where 40% plan to sell out and 20% to get out of business

- Most Great Falls businesses expect to operate more than 10 years. Confirming our concerns about existing basic firms is that only 40% expect to operate beyond 10 years.

Business Financing

- Bank financing is a key source of funding for businesses in Great Falls, with the exception of nonbasic start-ups.

- Lines of credit are the most common type of financing – less than half of businesses borrow for fixed assets.

- Local banks are the main source of bank financing

- Few businesses are turned down – less than one-fifth of any type of business

- Still, a substantial minority of start-ups responded that they did not have sufficient capital when they started

- More than a third of the businesses expect to borrow next year –

  * The average amount is for over $2.5 million, but more than 50% want less than $75,000.

  * Working capital and machinery/equipment financing tops the list for uses of bank financing

D. KEY FINDINGS

- Out-of-state branch plants generated the lion share of net job gains in Great Falls region from 1978 to 1988

- Great Falls recorded sharp declines -- well ahead of the nation -- in a number of major economic sectors, including manufacturing, mining, wholesale trade and construction.

- Agricultural services is a key growth sector in Great Falls region -- though it has just a small presence in the overall economy.

- The key industries driving the Great Falls economy are farming, health services, and military -- all exceed national average in industry income.

- Farming in Great Falls outperformed the nation -- but health services and military lagged behind, though each grew over the decade of the 1980s.

- In terms of firm dynamics for health services and agricultural services -- health services growth is a combination of locally-owned expansions and out-of-state branch plant start-ups, while much of the growth of agricultural services is being generated by locally-owned firms.

- The main disadvantages of Great Falls as a business location -- as stated by businesses in the region -- is its remoteness. Taxes are seen by a minority of businesses as a main disadvantage.

- Corresponding to the industry losses in the region, population has steadily declined and so has employment.

- Great Falls appears to be feeling the effects of the national recession more extensively than the state -- though the loss of population holds down the unemployment rate.

- The gap in per capita income and average earnings at work has grown relative to the nation over the decade. Earnings growth has been sluggish, while transfer income and dividend income has soared.

PART 7 PUBLIC RESPONSE

In addition to the personal interview series, the public participation process involved a series of thirty town meetings, personal interviews and a public opinion mail survey to identify development issues and quantify opinion on those issues. A random-sample geographically and gender balanced telephone survey of 400 households (constituting a 5 percent margin for error) further detailed Montanans' identified development issues and goals and probed the degree of urgency, prioritization and time-sensitivity for action which citizens had for these concerns. The results of this broad public participation process will form the basis for the development of statistical benchmarks to allow Montana's citizens and policymakers to determine "how Montana will know when it has accomplished its goals." This set of benchmarks will measure the current status and the state's progress toward and achievement of its goals. The benchmarks will be developed during October and presented along with the Business Development Strategy and Actions during phase two of the project.

A. Town Meetings

A total of 873 participants attended the thirty local town meetings to identify the specific issues of concern to Montanans. The meetings were locally organized and held during May and early June. The town meetings followed a series of regional training sessions that trained local facilitators in the focus-group methodology used to solicit citizen input about critical issues.

The town meeting process involved a concise explanation of Montana's current economic situation, complete with an overhead graphic presentation and follow-up handout and two hours of focused discussion around four questions. Participants were asked to brainstorm for ten minutes about their answers, then shared their top two responses for each question with the group. Responses were recorded on chart paper, consolidating identical responses. Participants were then asked to vote (using circular stick-on "dots") on their top five responses for each question. Responses were then counted, with a brief discussion following concerning the "top" responses receiving votes. Revisions were incorporated into the results, when a group felt strongly that the "votes" were not reflective of their discussion.

Town meeting results were compiled into a data base to analyze similar and divergent responses. The following pages illustrate the composition of the town meetings [identifying small versus large towns (S/L) and location in the state, i.e. east versus west (E/W), and the number of attendees in each town meeting]; the top five responses to the town meeting questions; and the consistent themes. More detailed town meeting data can be found in the Appendix.

Town	S/L	E/W	LFA	Att
Big Timber	S	E	Hardin-Red Lodge	17
Billings	L	E	Billings*	22
Bozeman	L	W	Bozeman	16
Butte	L	W	Anaconda-Butte	39
Cut Bank	S	W	Shelby	50
Deer Lodge	S	W	Anaconda-Butte	9
Dillon	S	W	Anaconda-Butte	25
Flathead Agency	S	W	Kalispell	8
Forsyth	S	E	Miles City	7
Fort Belknap Agency	S	E	Havre	4
Glasgow	S	E	Glasgow	33
Glendive	S	E	Glendive	27
Great Falls	L	E	Great Falls*	32
Hamilton	S	W	Missoula	65
Havre	L	E	Havre	41
Helena	L	W	Helena	33
Kalispell	L	W	Kalispell	90
Libby	S	W	Kalispell	68
Livingston	S	W	Bozeman	18
Malta	S	E	Glasgow	34
Miles City	S	E	Miles City	20
Missoula	L	W	Missoula	17
Plentywood	S	E	Glasgow	45
Red Lodge	S	E	Hardin-Red Lodge	26
Roundup	S	E	Lewistown	8
Shelby	S	E	Shelby	54
Sidney	S	E	Glendive	20
White Sulphur Spring	S	W	Bozeman	30
Wolf Point	S	E	Glasgow	15

Top Five Responses to Town Meeting Questions

Q1 = Elements of optimistic view of the state's future
Q2 = What must happen for the vision to come true
Q3 = The state's greatest opportunities and strengths
Q4 = The state's greatest weaknesses and problems

	STATEWIDE	LARGE TOWNS	SMALL TOWNS	EAST	WEST
Q1: Goals & Vision	Clean environment Quality education Business-friendly climate Youth jobs Balance, industry, environment	Clean environment Quality Education Business-friendly climate Youth jobs Balance, industry, environment	Youth jobs Clean environment Better employment Business-friendly climate Balance, industry, environment	Business-friendly climate Value-added products Develop tourism Youth jobs Balance, industry, environment (clean environment = #13	Clean environment Better employment Youth jobs Balance, industry, environment Quality education (business-friendly = #6)
Q2: What must happen	Tax reform Attract business Planning and zoning Workers' Compensation reform Tax reform-sales tax	Tax reform Attract business Adequate education funding Planning and Zoning Tax reform-fairness	Tax reform Attract businesses Planning and zoning Workers' Compensation reform Less regulation	Tax reform Attract businesses Tax reform-sales Workers' Compensation reform Tax reform-for business (planning/zoning = #13)	Tax reform Planning and zoning Attract business Adequate education funding Quality education
Q3: Strengths & Opportunities	Natural resources Quality of life Use of resources Quality education Personal qualities	Quality education Work ethic Quality of life Natural resources Personal qualities	Natural resources Quality of life Use of resources Skilled workers Beauty of state (personal qualities = #6)	Natural Resources Use of resources Work ethic Quality of life Beauty of state	Natural Resources Quality of life Personal qualities Value-added products Quality education
Q4: Weaknesses & Problems	Poor tax structure Polarization/partisanship Workers' Compensation structure Short-term outlook Resistance to change	Polarization/partisanship Poor tax structure Short-term outlook Resistance to change Workers' Compensation structure	Poor tax structure Polarization/partisanship Workers' Compensation structure Out-of-state interests Resistance to change	Poor tax structure Workers' Compensation structure Polarization/partnership Too much regulation Out-of-state interests	Polarization/partisanship Poor tax structure Short-term outlook Resistance to change Lack of planning (Workers' Compensation = #6)

MONTANA TWENTY YEARS FROM NOW, IN THE YEAR 2012 - WHAT ARE TWO ELEMENTS OF YOUR OPTIMISTIC VIEW OF HOW YOU WOULD LIKE IT TO BE?

QUESTION 1

Business Climate	Balanced business and environment Diversified economy Job opportunities for youth Strong, stable economy Value added to products
Education	Educated work force Funding and affordability Quality educational system
Government	Balanced budget, fiscal responsibility Equitable taxation Less bureaucracy and regulation Tax structure to attract business
Health Care	Accessible care Affordable care and insurance Universal care
Infrastructure	Efficient, planned development Improved rail, highway transportation Public transit
Natural Resources	Alternative energy Clean, safe environment Protection of resources; long-term view Use of resources; exploration (minority)
Quality of Life	Last best place; status quo Safe, wholesome
Tourism	Increased promotion US-Canadian connection

WHAT ARE TWO THINGS THAT HAVE TO HAPPEN FOR YOUR VISION TO COME TRUE?

QUESTION 2

Business Climate	Avoid polluting industries Create jobs that pay well Help businesses with capital, markets Recruit businesses and capital
Education	Consolidate districts Improve funding; equity Public-private partnerships (1) State-service scholarships (1)
Government	Citizen participation Greater efficiency, accountability Land-use planning Tax reform Workers' Compensation reform
Health Care	Courage; leadership Education Improved funding
Infrastructure	Improved roads, transit, communications Planning
Natural Resources	Conservation versus development Thoughtful management
Quality of Life	Cooperation; consensus Open-mindedness Traditional values
Tourism	Consider all of the state Promote and develop

WHAT ARE THE TWO GREATEST OPPORTUNITIES OR STRENGTHS THAT WE MUST TAKE ADVANTAGE OF TO REALIZE THE VISION?

QUESTION 3

Business Climate	Existing businesses and facilities Opportunity to add value to products Quality, education of work force Youth and graduates
Education	Community involvement, commitment Strong, quality system
Government	Involvement; interest; voter participation Tax reform: sales tax/no sales tax
Health Care	Caring citizens Use taxes to benefit health
Infrastructure	Telecommunication technology
Natural Resources	Abundant resources Clean air and water Natural beauty; open space Protection of environment
Personal Qualities	Human resources Strength; teamwork; youth Work ethic
Quality of Life	General quality of life Last best place Recreation
Tourism	Attraction of state to tourists

WHAT ARE THE TWO GREATEST WEAKNESSES OR THREATS THAT WE MUST OVERCOME TO REALIZE THE VISION?

QUESTION 4

Business Climate	Economy favored over environment Lack of capital Out-migration of youth Poor climate for business
Education	Ineffectiveness; inefficiency Lack of funding Voters' negative attitudes
Government	Excessive bureaucracy, regulation Out-of-state interests (EPA) Partisanship; polarization Poor planning, land-use policies Short-term favored over long-term Tax structure Workers' Compensation
Health Care	Bias against poverty Ignorance
Infrastructure	Inadequacies Poor transportation
Natural Resources	Hard-core environmentalists; extremists Out-of-state forces
Personal Qualities	Apathy Fear of change; resistance to change

B. Random-Sample Telephone Survey

To follow up in greater detail on issues and concerns identified in the town meetings, 407 Montana citizens were interviewed, using a 20-minute telephone survey. Telephone numbers were randomly generated by computer, incorporating an appropriate gender and geographic balance. Interviews were conducted with residents in 97 communities ranging from Absarokee to Wolf Point. The majority of those sampled have lived in Montana for over 20 years and have at least a high school education. Margin of error for a sample this size is plus or minus five percent. A copy of the telephone survey questionnaire is included in the Appendix.

Most survey questions targeted individual opinions about opportunities, strengths, weaknesses and problems related to the Montana economy and the state's natural and social environment. Many questions asked Montanans to rate their responses using a scale of 1 ("poor" or "unimportant") to 5 ("excellent" or "very important"). In some instances, respondents were also asked whether issues or problems they had rated "very important" were or were not "immediately urgent," requiring action within two years or less.

QUALITY OF LIFE, AND GENERAL POLICY DIRECTION

The preservation of Montana's quality of life is a major concern. Overall, respondents rate their current quality of life as nearly a 4 on a scale of 1 to 5. (The average response was 3.95.) Montanans are torn between whether they believe the state is currently moving in the wrong (45.2%) or the right (35.9%) direction, in an overall sense. Almost 19% of those asked were undecided on the correctness of the state's current policy direction.

However, 58% interviewed believe that Montana's quality of life will decline over the next 20 years if things continue as they are currently--reinforcing the sense of concern with this issue, and emphasizing a perceived need for strong policy action.

Over 90% of respondents believe that it is important for Montana's economy to become stronger during the next 20 years. It is an operating assumption of the Governor's Council for Montana's Future that, to successfully strengthen Montana's future economy, economic policy must reflect the needs and solve the problems given highest priority and urgency by the citizens themselves. Early in the telephone questionnaire, Montanans were asked to identify what are the areas in which the state has the greatest problems. The top four answers in descending order of priority by the number of times mentioned by respondents are:

1. **Unemployment**
2. **Tax structure**
3. **Worker's compensation**
4. **Social Services ((i.e. health care, welfare,infrastructure, education, etc.)**

GROWTH IN JOBS AND INCOME

When asked to broadly describe the greatest problems facing Montana, the most common response was unemployment. In combination with other responses on goals for economic policy, social services issues and specific employment/income objectives, it is clear that the identification of unemployment as a major problem is part of a broader concern about growth in jobs and income levels.

On a scale rating the importance of various goals for economic policy, goals were ranked in the following priority order:

		Average Rating
1.	Growth in jobs and income	4.38
2.	Stabilization and diversification of the economy	4.18
3.	Preservation of the environment and a traditional way of life	4.10
4.	Balance between job growth and environmental preservation	4.03

It should be noted that all the above goals were ranked "important," reinforcing the conclusion drawn earlier from town meetings on the economic future that Montanans want both job/income growth and a quality social and natural environment--not one as opposed to the other.

An emphasis on job creation and retention was also evident in a question posed to Montanans regarding future health care and social services. Reform of the current welfare system so as to move people into the job market was given the highest priority in this policy area, with nearly 64% of the respondents also giving this issue an "immediate urgency" rating.

During the 1980s, Montana's employment grew by 9%, about half the growth rate for the U.S. as a whole. Montanans were asked whether they prefer Montana's rate of employment growth in the next 20 years to be half as fast, just as fast, or faster than the U.S. rate. More than 86% of those responding believe the rate of employment should be **at least** as fast as the U.S. rate of growth.

Likewise, average per-capita income in the state of Montana in 1990 was only 80% of the U.S. average. Over 88% of those surveyed believe that during the next 20 years Montana's income should at least become equal to the national average.

As a qualifier to the support for growth, it is important to realize that Montanans appreciate their low population density and the high quality of life associated with it. Sixty-three percent of those surveyed believe that Montana's current population is the right amount to be living in the state, with an additional 9.6% maintaining that population is already too large; 24% of respondents believe there are too few people.

TAX STRUCTURE

"Tax structure" was listed as the second greatest problem facing Montana. Although the specific dissatisfactions and issues may vary, the overall attitude of many Montanans is that something must be changed or added to improve the state tax situation. Given the Council's focus on business development issues, the survey did not enter into questions concerning tax reforms for the purpose of balancing the state's revenues and expenditures. Several questions, however, probed attitudes about tax incentives and changes for business development purposes.

In general terms, 63.88% of those responding to the survey support efforts by the state government to offer tax incentives to encourage out-of-state businesses to relocate in Montana. An even greater percentage (84.03%) were in favor of tax incentives to promote startups and expansions of businesses within the state. The strong bias for assistance to in-state as opposed to relocating out-of-state business is reinforced when citizens are asked what programs merit a tax increase: "attracting outside business and industry" was ranked last, out of six categories mentioned; "Montana business creation and expansion" ranked third.

Future business-climate improvements in the form of business tax reductions were widely supported but not regarded as "immediate urgencies." However, tax reform is considered both a highly urgent (46.93%) issue and a highly important issue: on a scale of 1 (not at all important) to 5 (very important), Montanans view this issue to be a 4.35. This problem takes precedence over other state and local government policies whose urgencies were prioritized as follows: **reductions in government spending (46.44%); reductions in bureaucracy and regulation (43.24%); reductions in political partisanship (31.20%); and improvements in land-use planning and zoning (28.50%).** However, it should be noted that all goals were strongly endorsed as being important, none receiving a rating less than 4.

Despite the high priority assigned to reducing government spending in general, many Montanans say they would be willing to accept a tax increase for certain specific purposes, as illustrated in the table on the following page.

Those willing to bear the burden of additional taxation were asked to describe the type of taxes they would prefer. The sales tax received the most votes, with the excise tax as a distant second. Uses of taxes are ranked from left to right in the following table, in order of citizens' willingness to pay higher taxes for them.

Percentage of Respondents Willing to Accept a State Tax Increase by Purpose of Tax and Type of Tax

Purpose of Increase	1. Education	2. Health Care & Social Services	3. Montana Business Creation & Expansion	4. Natural Resource Management	5. Infrastructure Investment	6. Outside Business Attraction
Total % Willing to Accept Increase	69.4%	53.8%	52.8%	44.1%	40.3%	34.2%
Type of Tax Preferred:						
Sales	32.2%	33.3%	33.5%	32.7%	39.7%	36.0%
Excise	17.7%	11.9%	14.9%	15.4%	20.1%	15.8%
Income	14.1%	18.7%	9.8%	11.1%	4.9%	9.4%
Property	10.6%	5.9%	5.1%	4.9%	7.2%	3.6%
Business	3.9%	4.1%	11.6%	4.9%	5.5%	9.4%
Other	5.8%	5.5%	6.1%	10.5%	7.3%	5.8%
Undecided	16.3%	20.6%	19.1%	20.4%	15.2%	20.1%

In summary, the view is that a tax increase would hurt least if revenues were generated through a sales tax and were targeted toward education, health care and social services, or targeted toward helping Montana business people start or expand businesses. It is also clear that, by overwhelming margins, Montanans reject an increase in property or business taxes for <u>any</u> purpose.

WORKER'S COMPENSATION AND BUSINESS CLIMATE GOALS

On a scale of 1 (not at all important) to 5 (very important), the reduction of worker's compensation costs rates highest (at 4.13) among business climate goals, and also has the highest percentage rating this issue immediately urgent (36.61%). According to the over 400 respondents, worker's compensation is the single most important business climate issue, and the one that most requires immediate attention. In terms of priorities for business climate improvements, workers compensation is followed (in order) by investments in infrastructure, improved access to financial capital, reduction of business taxes and reduction of regulations.

STABILIZATION/DIVERSIFICATION

In addition to lowering worker's compensation costs, Montana respondents recognize the importance of diversifying their economy to meet the challenges of a globalized market. According to the situational analysis of Montana's major industries (completed by the National Consulting Service of the National Association of State Development Agencies), Montana's basic industries include: agricultural services; farming; livestock operations; oil and gas extraction; coal mining; metal mining; non-metallic minerals mining; rail and other transportation; manufacturing (e.g. lumber and paper products and food processing); tourism; selected services and federal government.

The respondents were asked to rate various industries in order of perceived importance to Montana's economic future. The following is a list of the top seven industries in order of expected importance and rated on a scale of 1 to 5 (with five as the highest):

Tourism	4.48
Farming and mining	4.41
Retail & wholesale operations	4.09
Lumber and wood products	4.02
Services	3.96
Export operations	3.95
Telecommunications & transportation	3.93

Montanans who answered the survey placed a strong emphasis on promoting and developing new and expanding businesses from inside Montana on all fronts: in terms of tax incentives, tax increases, allocation of existing budgets, and priorities for industry promotion and assistance. Asked to rank business assistance priorities, respondents placed "promoting and developing new and expanding business from inside Montana" first, followed (in order) by tourism, value-added products and recruiting new companies from outside the state.

ENVIRONMENT

Asked to prioritize environmental goals, respondents come up with a tie for first place on two issues: striking a balance between industry and environmental preservation, and reducing the influence of out-of-state forces on natural resource policy.

Generally, in regards to environmental issues, those surveyed did not display any clear consensus. Environmentalists and activist groups were mentioned by several respondents as being a significant problem in Montana, but preservation of the environment was also voted as a major concern. Of those surveyed, Montanans were split as to whether or not they would be willing to accept a tax increase to provide more funding for natural resource management and environmental preservation (44.14% voted yes, 53.15% voted no, and 2.71% were undecided). When Montanans were asked whether they would like to see funding in this area increase, decrease or stay the same the results were as follows: increase--2.46%; remain the same--34.89%; decrease--40.29%; undecided--22.36%.

SOCIAL SERVICES

The fourth problem area in order of priority listing by citizens of Montana is social services. These services include health care, welfare, housing, infrastructure and education. As part of the survey, Montanans were asked to assume that the state government had a fixed budget. Acknowledging this restraint, Montanans were asked to specify for which programs would they like to decrease funding; keep funding the same; or increase funding. The responses were:

	Decrease	Same	Increase	Undecided
Education	26.54%	**64.13%**	1.47%	7.86%
Health Care & Social Services	33.91%	**43.98%**	3.68%	18.43%
Help Montanans start or expand business	36.61%	**54.30%**	3.93%	5.16%
Infrastructure investment	**45.95%**	33.91%	6.87%	6.87%

Infrastructure received the strongest negative rating on this question, with almost 46% preferring a decrease from current budget levels.

As shown earlier in the table on page 139, many Montanans would accept a state tax increase to provide funding for education (69.53%, yes; 28.50%, no), health care and social services (53.81%, yes; 44.96%, no), and assistance to in-state businesses (52.83% yes, 44.96% no). However, in regards to local infrastructure investment, only 40.29% were willing to bear a tax increase. This unwillingness to make further investments in infrastructure was verified by the average importance ratings and moderate urgencies associated with improvements in individual infrastructure components [road system (20.64%), rail system (10.81%), sewer and water systems (16.22%), airport facilities (16.22%), telecommunications network (10.32%) and north-south Rocky Mountain Trade Corridor (11.79%)].

It should be noted that this result appears in conflict with the fact that Montanans just approved a ballot initiative (Treasure State Endowment) to greatly increase infrastructure spending. Perhaps the two are related: citizens may feel they have just taken a large step to improve infrastructure, and that nothing further is needed at present. Given the high priority assigned to infrastructure among business-climate improvement goals (see discussion under "Workers Compensation," above), no clear conclusion can be drawn, and further study in this area is strongly warranted.

In the area of education, the most important issue to those surveyed was the creation of a well-educated labor force. In fact, 42% of those who rated this issue as "very important," also rated it an immediate urgency. Other important issues include improving the quality of education in Montana and increasing innovative educational programs in schools, colleges, and universities.

Over 90% of those surveyed were high school graduates. According to the Montana Office of Public Instruction, in 1988 Montana had a high school graduation rate 22% higher than the U.S. as a whole. Nearly all of those surveyed would like to see this statistic at least remain constant, while 77.64% would like to increase the graduation rate still further in advance of national averages.

Despite this impressive percentage of high school graduates, over 40% of those responding to the survey did not get beyond high school. Over 70% did not attend more than 3 years of post high school education. It should be noted that these statistics are evenly distributed between males and females (e.g. 39.13% of all males surveyed did not study beyond high school compared to 42.71% of all females surveyed).

Montanans place high importance on health care and social services for the future of the state. On a scale of 1 (not at all important) to 5 (very important), the average responses to the following issues were:

- Reforming the welfare system to improve service and move people into the job market **4.72**
- Making health care more accessible and affordable **4.57**
- Reducing the cost of welfare programs **4.09**
- Establishing universal health insurance **3.90**

Finally, nearly 74% of citizens believe it is "very important" for Montana's economy to be stronger in 20 years than it is now. Those surveyed would like local governments and the private sector to take the lead in the state's overall development, with state government and public/private partnerships playing a somewhat lesser role and federal government being the least important.

C. Personal Interviews

NASDA conducted a series of more than fifty personal interviews with a diverse group of Montanan citizens and business leaders in various regions of the state, local and state program managers and public policymakers and trade association representatives to understand their views about Montana's economic development strengths, weaknesses, and goals.

Some of the priorities for development uncovered through the interviews include: Coordinating comprehensive planning actions and engineering feasibility studies for land use, integrated water and sewer systems, and transportation; improving communication and cooperation among local leaders and state government officials; achieving participation among all key interest groups to address economic development issues-education, government, industry, and social service providers; addressing key business-climate concerns such as tax reform, worker's compensation revisions, environmental regulations, and funding for higher education; promoting efficient use of natural resources through the development of new value-added products.

D. Local Government and Business Network Mail Survey

A total of 554 public officials (mayors, county commissioners, state legislators, and candidates for public office), key business executives, and community and organizational leaders received mail surveys to determine their perspectives about the development issues affecting their localities and regions. Sixty-five surveys were returned reflecting a 12 percent response rate (4 percent better than the average 8 percent response rate for mail surveys).

Caveat: The survey was purposefully designed to be returned anonymously. One cannot draw any conclusions about the representativeness of each response with respect to various geographic, or with respect to rural versus urban areas of the state.

The participants ranked the priority **development goals** in the following order of importance:

1. Job Creation
2. Capital Investment in Businesses and Industries
3. Investment in Infrastructure (Water, Sewer and Roads)
4. Diversification and Stabilization of the Economy
5. Preservation of Traditional Values and Way of Life
6. Investment in Education
7. Improved Quality of Life
8. Investment in Public Safety (Police, Fire, etc.)
9. Other Issues

The **development factors** (in descending order of importance) were identified as having positive, negative or no impacts upon the economic development occurring in Montana. Using a scale of 3 for most positive and -3 for most negative the following average ratings were given by participants.

Positive		Negative		None	
K-12 Educational System	1.55	Workers Compensation	-2.55	R&D/Technology Transfer	0.03
University Education System	1.08	Federal Regulations/Policies	-1.89		
Public Safety System	0.86	Prevailing Economic Business Climate	-1.60		
Existing Economic Development Programs	0.38	Proximity to Major Markets	-1.60		
		State and Local Taxes	-1.38		
		Political/Legislative Climate	-1.20		
		Availability of Financial Capital	-1.11		
		Environmental Regulations	-0.97		
		Proximity to Major Airports and Highways	-0.57		
		Coordination between State and Local Governments	-0.49		
		Land Use Restrictions	-0.46		
		Infrastructure (Water, Sewer, Roads)	-0.28		

Participants were asked to rate the **Montana's performance regarding specific development initiatives** over the past ten years with 10 being excellent and 1 being very poor. Responses by average rating (best to poorest) are as follows:

1. Economic Development Cooperation Between Montana's Industries, Colleges and Universities 5.88
2. Improvement of the Quality of Life for Montana's Citizens 5.35
3. Rate of New Technology Transfer to Montana's Industries 5.01
4. Impact of Statewide Economic Development Programs and Initiatives 4.65
5. Relationship between Montana's Industries and State and Local Government 4.63
6. Balance between Economic Growth and Protection of the Environment 4.59
7. Economic/Business Climate in Montana 3.63

Participants ranked Montana's three most **important industries**. On a total point basis, those surveyed ranked the following industries as most important (in descending rank order):

Farming (Crops)	215	Construction	13
Livestock Operations	100	Retail	10
Wood & Lumber Products	52	Manufacturing Other than Wood	9
Mining	50	Wholesale Trade	8
Agricultural Services	45	Transportation and Public Utilities	5
Other	37	Financial Services	3
General Services	21		
Government	17		

Of the respondents, 73.8 percent do not believe that Montana possesses a **pro-business climate**. Twenty percent of those surveyed believe Montana does favor business, while 6.2 percent were undecided. However, 72.3 percent of all respondents believe that Montana promotes and maintains a **high quality of life for its citizens**, with 23.1 percent in disagreement and 4.6 percent undecided.

Of the 65 people responding, 78.5 percent do not believe that from an economic development perspective, Montana is effectively positioned to enter the 21st century. The remaining 16.9 percent do believe Montana is positioned appropriately, and 4.6 percent were undecided.

PART 8 DEVELOPMENT STRENGTHS AND WEAKNESSES

Responses from the town meetings, random sample telephone survey, mail survey and interviews with business and community leaders identified the following economic development strengths and weaknesses for Montana.

Key economic resources and development strengths inherent to the state include:

- Pristine environment and natural beauty.
- Strong work ethic and loyalty of labor force.
- Available supply of workers with high SAT/ACT scores who are trained in basic skills.
- Affordable and high-quality secondary, technical, and post-secondary education.
- Abundant quantities of affordable land for industrial development.
- Community-minded, rural-based lifestyle.
- Access to major national parks, recreation and wilderness areas.
- Abundant base of natural resources.
- Montana's image as the "last best place."

The following issues were identified as challenges or obstacles to development in Montana. Actions to overcome or resolve these constraints will provide new options and opportunities for economic development throughout the state.

- Diseconomies of small scale: with more than 82% of all firms employing fewer than 10 people, most Montana companies lack the scope and scale necessary to penetrate large external markets.
- Current tax structure appears incapable of financing needed investments in infrastructure, training, technology and education.
- The Workers Compensation system is in deep crisis.
- Recruitment of new industries and residents to the state is inhibited by the perception of Montana's isolation and cold climate.
- Political partisanship, and polarization among groups, often result in legislative stalemate.
- Geographic remoteness from major markets, combined with low population density, makes Montana an unlikely site for headquarters or distribution facilities.

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- Over-dependence on extractive commodity industries leads to "boom and bust" cycles and long-term structural decline.

- Lack of a comprehensive local business-support infrastructure (such as export-trade financiers and other finance specialists, patent expertise, venture-capital "dealmakers," and other specialized business-support services) inhibits expansion of entrepreneurial businesses.

- The independent mindset of Montana's citizens may obstruct awareness of interdependency and inter-relatedness with others in the state, as well as integration in the global economy.

- Short-term outlook and "quick fixes" often take precedence over long-term strategy and sustainability.

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The second Montana Futures Project report will draw on the information and public responses summarized herein to compose a vision of the future, together with broad goals for realizing that future, and a set of statistical benchmarks for measuring progress toward our goals.

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I. An Economic Analysis of the State of Montana

II. Bank System Charts by Corporation for Enterprise Development

   A. Health of Banking System
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III. A Detailed Analysis of Neighboring State Development Programs

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